

Application of Aqua PA Wastewater, Inc.

Docket No. A-2019-3015173

Hearing Date: November 9, 2020

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Aqua Statement

2 (Packer - Direct)

2-R (Packer - Rebuttal)

10-R (Miller - Rebuttal, with

Exhibits JMB-10R,

Schedule A; JMB-10R,

Schedule B; JMB-10R,

Schedule C; JMB-10R,

Schedule D - Confidential)

8 (Walker - Direct)

8-R (Walker - Rebuttal)

Aqua Exhibit

1 (application - Confidential)

2 (territory maps with facilities - Confidential)

3 (schedules to asset purchase agreement –
Confidential)

4 (computer disc of confidential and propriety files
from Gannett Fleming - Confidential)

Application of Aqua PA Wastewater, Inc.

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Aqua Exhibit

5 (computer disc of confidential and propriety files from Scott Madden - Confidential)

6 (computer disc of Appendix A to Mr. Packer's testimony - Confidential)

7 (computer disc of workpaper files for Application Exhibit D – Confidential)

8 (5/6/20 letter to Commission Secretary)

9 (5/7/20 letter to Commission Secretary - Confidential)

10 (5/8/20 letter to Commission Secretary – Confidential)

11 (5/13/20 letter to Commission Secretary)

12 (5/22/20 letter to Commission Secretary)

13 (5/28/20 letter to Commission Secretary)

14 (6/8/20 letter to Commission Secretary)

EXHIBIT U2

TESTIMONY OF WILLIAM C. PACKER

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

AQUA PENNSYLVANIA WASTEWATER, INC.

DOCKET NO. A-2019-3015173

AQUA STATEMENT NO. 2

**DIRECT TESTIMONY OF
WILLIAM C. PACKER**

**With Regard To
Rate Impact
Implementation of Rates
Public Benefits of the Transaction
Summary of Public Benefits in the Application**

March 3, 2020

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AQUA PENNSYLVANIA WASTEWATER, INC.
DIRECT TESTIMONY OF WILLIAM C. PACKER

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is William C. Packer. My business address is 762 West Lancaster Avenue,
Bryn Mawr, Pennsylvania 19010.

Q. By whom are you employed and in what capacity?

A. I am employed by Aqua Pennsylvania, Inc. (“Aqua PA”), as Vice President – Controller.
I also oversee certain financial operations for our parent company and its subsidiary Aqua
New Jersey, Inc. (“Aqua NJ”). Aqua PA is the parent company to Aqua Pennsylvania
Wastewater, Inc. (“Aqua” or the “Company”).

Q. Please provide a brief description of your education and work experience.

A. In April 2017, I was promoted to my current position of Vice President – Controller of
Aqua PA. I began my career at Aqua in March 2005 where I joined Aqua New Jersey,
Inc., as Assistant Controller. Since then I have held a variety of positions in finance and
accounting.

In addition to my corporate experience, I was elected as Mayor of the Borough of
Woodbury Heights in November of 2018 and was sworn in on January 5, 2019. The
Borough of Woodbury Heights is one of 565 municipalities in New Jersey and has a
population of approximately 3,000 residents.

I graduated from Richard Stockton College of New Jersey in 1998 with a
Bachelor of Science degree in Business Studies with a concentration in Accounting. I
began my 20 year career in the utility industry in September 1999, when I joined New

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Jersey American Water Company (“American”) as a General Staff Accountant and from 2001 to 2005 holding various positions in finance and accounting at American. At American, I had the opportunity to support the rate-making process by working closely with operating subsidiaries in 23 states, preparing schedules and answering interrogatories.

Q. Have you testified before the Pennsylvania Public Utility Commission (“PUC” or the “Commission”) before?

A. Yes, I have testified in several proceedings before the Commission, including Aqua PA’s petition to charge a 7.5% Distribution System Improvement Charge (“DSIC”) at Docket R-2008-2079310, Aqua PA’s last three rate cases at Docket Nos. R-2009-2132019, R-2011-2267958, R-2018-3003558, and Aqua’s five previous Public Utility Code Section 1329 proceedings in Docket Nos. A-2016-2580061, A-2017-2605434, A-2018-3001582, A-2019-3008491, and A-2019-3009052.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is as follows: (1) to provide a description of the estimated incremental rate impacts of the proposed sale of wastewater equipment and facilities (“System”) owned by the Delaware County Regional Water Quality Control Authority (“DELCORA”) to Aqua under an Asset Purchase Agreement dated as of September 17, 2019 (“Proposed Transaction”), (2) to discuss the implementation of DELCORA rates following closing of the Proposed Transaction, (3) to explain the benefits of the Proposed

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Transaction, and (4) provide an overall summary of public benefits from the Application and testimony.

Q. Are you sponsoring any Exhibits with your testimony?

A. Yes. Attached to my testimony as Appendix A is a schedule showing the revenue deficiency and estimated incremental rate impacts of the proposed rate base addition associated with Aqua's acquisition of the System. Attached to my testimony as Appendix B is a pro-forma memorandum of understanding between Aqua and DELCORA to facilitate payments from the DELCORA Customer Trust (the "Trust") to be included on DELCORA customer bills as further described in my testimony.

II. EXPLANATION OF ESTIMATED INCREMENTAL RATE IMPACT

Q. Please describe Aqua's plans to implement DELCORA rates.

A. The Company will implement the existing rates of DELCORA, that have been previously approved and authorized by the DELCORA Board. These rates are set forth in Exhibit G to the Application. As set forth in the direct testimony of Mr. Pileggi (Aqua Statement No. 6), the DELCORA Board approves new rates each year prior to December 1 for the upcoming year's billing periods.

Q. Please list the rate groups set forth in Aqua's proposed tariff included as Exhibit G in the Application.

A. DELCORA's rate groups are categorized into the following groups: (1) Chester Ridley Creek, (2) Eastern Authority, (3) Edgmont, (4) Pocopson Preserve, (5) Pocopson

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1 Riverside, (6) Residential, Commercial, Marcus Hook, and Minimum Accounts, (7) Rose
2 Valley Area, (8) Western Wholesale, (9) Western Retail Industrial, (10) Western
3 Wholesale Industrial, and (11) Springhill Farms¹.

4
5 **Q. Have you calculated the estimated incremental rate impact of the Proposed**
6 **Transaction on Aqua's existing customers and each of the DELCORA rate groups?**

7 Yes. The potential impact to DELCORA customers is 12.55%, the potential impact to
8 Aqua wastewater customers is 14.32%, and Aqua water customers is 4.58%. This
9 analysis is required by the Commission and I would note this does not include the effect
10 that the Trust will have to assist DELCORA customers in paying for their own cost of
11 service in their utility bills.

12
13 **Q. Have Aqua and DELCORA reflected these estimated rate impacts in notices to**
14 **customers?**

15 A. Yes. The Company has developed notices to customers included as Exhibit I1 through
16 Exhibit I12 to the Application.

17
18 **III. IMPLEMENTATION OF DELCORA RATES**

19 **Q. Will Aqua implement DELCORA's existing base rates as described above after**
20 **closing?**

21 A. Yes.

22

¹ DELCORA currently has an agreement for the purchase of Springhill Farms which will conclude in 2020.

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1 **Q. Will Aqua propose to move the DELCORA customers to their full cost of service**
2 **based on the rate base addition determined in this proceeding in Aqua's first base**
3 **rate case following closing that includes DELCORA customers?**

4 A. Yes. The acquired DELCORA customers will be billed at the full Commission approved
5 rate from Aqua's base rate case. This rate will be stated in Aqua's tariff on file with the
6 Commission and available on Aqua's website.

7
8 **Q. How does DELCORA intend to use the proceeds of the Proposed Transaction?**

9 A. As set forth in the direct testimony of Mr. Willert (Aqua Statement No. 5) DELCORA is
10 proposing to take a portion of the proceeds of the Proposed Transaction and place them
11 into a trust for the benefit of the DELCORA customers, and has requested to apply
12 payments to DELCORA customers from the Trust through Aqua's billing process.

13
14 **Q. Does Aqua have any input on DELCORA's use of the proceeds of the Proposed**
15 **Transaction for?**

16 A. No. At closing of the Proposed Transaction, Aqua will pay DELCORA the agreed upon
17 purchase price, and Aqua will not have any control over the Trust.

18
19 **Q. What is the proposed method to convey the customer assistance amounts from the**
20 **Trust to DELCORA customers after closing of the Proposed Transaction?**

21 A. To address DELCORA's request for Aqua to apply customer assistance payments from
22 the Trust to DELCORA customers, the Company is proposing to include a payment line
23 item on the customer bill.

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Q. Have there been other instances where third party payments are included on utility bills?

A. Yes. Through Aqua’s Helping Hand program, payments are made from a third-party community organization and applied to customer bills. These payments are presented as a line item on customer bills. In addition, there are also instances where a community organization will pledge a payment for a customer who needs financial assistance in paying their utility bills. I am also aware that for electric and gas utilities, financial assistance payments are included on bills for those who receive LIHEAP and CRISIS grants.

Q. If the Commission determines that Aqua cannot put the customer bill assistance payments from the Trust on the customer bills, does the Company have an alternative proposal?

A. Yes. The Company could include a check in each customer bill sent out or could send customer information to the Trust to provide the bills assistance by check to customers. However, as more fully described below, the preferred method would be to include the payment from the Trust on the customer bills.

Q. Please explain why including the bill assistance payment amount from the Trust on customer bills is the preferred method of distributing the proceeds of the Trust to DELCORA customers.

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1 A. By including the payment on the bill, the DELCORA customers will receive an
2 immediate benefit of the Trust proceeds, which is important given that a number of these
3 customers may already be low income payment troubled customers for whom these types
4 of bill assistance payments (i.e., LIHEAP, CRISIS, Helping Hand) are crucial to
5 managing their utility bills. There will not be a lag between when they are charged for the
6 utility service and receive the payment from the Trust. It will also ensure accuracy and
7 reduce chances of non-receipt of payment if an alternative method was used like
8 payments from the Trust to customers via check. If an alternative method was used, the
9 customer may not receive a check through mis-delivery of the check or if the customer
10 moves away during a billing period. It would also ensure that customers receive the
11 payment if they do not have a checking account or the ability to travel to a bank to cash
12 the check. Aqua will also have the customer information necessary to apply the Trust
13 payments to the acquired DELCORA customers' accounts. Applying the Trust payment
14 on the customer bill will reduce administrative issues and better ensure that customers
15 timely receive the benefit of the Trust payments.

16
17 **Q. Please describe the Memorandum of Understanding ("MOU") attached to your**
18 **testimony as Appendix B.**

19 A. Appendix B includes a pro-forma MOU that will facilitate information sharing between
20 Aqua and DELCORA to effect the purposes of the Trust to provide payments to be put on
21 DELCORA customer bills from the Trust.

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1 **IV. PUBLIC INTEREST**

2 **Q. Please explain why the Proposed Transaction is in the public interest.**

3 A. The PUC has a long-standing record of support for consolidation/regionalization of
4 water/wastewater systems. As noted in the direct testimony of Mr. Lucca (Aqua
5 Statement No. 1) the PUC has encouraged consolidation of water and wastewater
6 systems. Through the acquisition of the DELCORA assets and merger of its operations,
7 Aqua will further the Commission's goals of regionalization. By creating a large scale,
8 concentrated wastewater operation in the Company's largest service area, this will likely
9 create efficiencies in operations through economies of scale. Ultimately, these benefits
10 inure to customers both existing and acquired. Although the Proposed Transaction does
11 not involve the acquisition of a smaller system, the principles noted by the Commission
12 in the aforementioned policy statement still apply, and Aqua PA has successfully
13 acquired numerous water/wastewater utilities in its over 130 years of operation.

14
15 **Q. Did the Commonwealth Court refer to the Commission's policy of**
16 **consolidation/regionalization and Aqua's expertise in system operations and ability**
17 **to raise capital in its opinion in *McCloskey v. Pa. P.U.C. (McCloskey)* addressing**
18 **Aqua's transaction with New Garden Township?**

19 A. Yes. Although I am not an attorney, I have read the Court's Opinion in the *McCloskey*
20 case. At the end of Section A of the Opinion, the Court refers to Commission findings
21 that Aqua, as owner of numerous water and wastewater systems in Southeastern
22 Pennsylvania, has sufficient expertise to operate a system and ability to raise capital to
23 support a system and that the Commission has a policy of consolidation and

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1 regionalization that allows for increased maintenance, upgrade and expansion of public
2 facilities. The Court concludes that the foregoing benefits are reasons of the type that the
3 Supreme Court in its *Verizon* decision held were sufficient to meet the public benefit
4 standard and substantial evidence to support the notion that there is a public benefit for
5 the transaction. This same analysis is sufficient to support the public benefit and
6 substantial evidence of public benefit in this proceeding.

7
8 **Q. Will Aqua's existing customers benefit from the Proposed Transaction?**

9 A. Yes. The Proposed Transaction System will be an approximate 45% increase in Aqua's
10 customer base on a customer connection basis. This acquisition will be a significant
11 addition to the Company's wastewater business since its inception in 1996. Moreover,
12 this acquisition in relation to combined Aqua PA and Aqua is equally significant because
13 it establishes a large foundation in the sewer business, one that is comparable to Aqua
14 PA's main division water business.

15 In past Section 1329 applications, I have compared the Company's current rate
16 base per customer to the rate base per customer of the acquired system. For this
17 Application, this comparison needs further explanation because DELCORA contains
18 significantly more wholesale transmission and treatment services, compared to the
19 Company's existing collection and treatment systems. This is demonstrated by the
20 amount of Equivalent Dwelling Units ("EDUs") that are currently served by DELCORA
21 at approximately 197,000, compared to their connection count of approximately 16,000.

22 To provide a similar basis comparison to Aqua, I have looked at DELCORA's
23 retail customers and the revenues they would generate compared to the overall revenues

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1 of the DELCORA system. The retail customer revenues are approximately \$9,363,764 of
2 the total revenue of DELCORA which is approximately \$70,978,127. Thus, the retail
3 revenue is approximately 13% of the total revenue. In taking 13% of the purchase price
4 of \$276,500,000 it results in an approximate purchase price of \$36,000,000 for the retail
5 related treatment and collection business. That equates to an approximate purchase price
6 per connection of \$2,250. The Company's current rate base per customer for its existing
7 systems included in its most recent rate case is \$7,750. Therefore, the Company is
8 acquiring these customers at less rate base per customer than its existing systems, which
9 indicates there are economies of scale that will be realized from this Proposed
10 Transaction.

11 In applying the entire revenue deficiency to the current average monthly bill of a
12 residential/commercial retail customer of DELCORA of approximately \$41.26 per month
13 using 6,660 gallons the adjusted average bill would increase to approximately \$46.44 per
14 month or a 12.55% increase. This is less than the Company's existing average
15 wastewater rates included in its most recent rate case at approximately \$68.27. The fact
16 that both the rate base, as described above, and rates are less than the Company's current
17 rates demonstrate that there are immediate economies of scale as a result of the Proposed
18 Transaction.

19 I note again that both Aqua and Aqua PA have developed into the utility they are
20 today by acquiring and operating smaller to large-sized systems. This progression has
21 successfully happened over the last several decades and took the form of acquiring both
22 viable and non-viable systems. Over the long term, this process has benefitted current
23 customers, future customers that were acquired, and the Commonwealth.

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Q. Please further explain the benefits to existing customers from the Proposed Transaction.

A. Through the Proposed Transaction, Aqua will be acquiring a sizeable wastewater system and the existing experience and talent of the DELCORA employees. The Proposed Transaction will create the equivalent of Aqua PA’s main division for wastewater operations. Such a change will be significant for the Aqua wastewater business. Going forward, Aqua will be able to invest in its system and provide for greater cost spreading over the long term. Moreover, by merging the operations of Aqua and DELCORA, Aqua will gain several experienced wastewater professionals to bolster the Company’s wastewater operations.

Q. Please explain how the Proposed Transaction will benefit the acquired customers.

A. The DELCORA customers will become part of a larger-scale, efficiently operated, wastewater utility. The Company has operations that overlap and will be able to integrate the operations of DELCORA, fold them into a larger-scale, efficiently operated utility that over time will likely yield further operating efficiencies and improve long-term viability as envisioned in the PUC’s policy statement. The Proposed Transaction will not have any immediate impact on the rates of either the acquired DELCORA customers or the existing customers of Aqua. Aqua PA provides water service to several areas served by DELCORA and many of our customers are in Delaware and Chester Counties. Lastly, given the fact that there is a large scale capital investment plan, as noted in the testimony of Mark J. Bubel, Sr. (Aqua Statement No. 4), the customers of DELCORA will benefit

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1 greatly from the Company's technical experience and fitness in deploying resources
2 towards capital improvements. The combining of systems and customers provides
3 inherent stability in the day to day utility operations, in that, these systems do not all
4 require major capital investments at the same time and, therefore, consolidation spreads
5 the financial impacts over the long term operations of the utility.

6
7 **Q. In *McCloskey*, the Commonwealth Court concluded that the Commission must**
8 **address rate impact "in a general fashion" when deciding whether there is**
9 **substantial public benefit. Please address the rate impact of the transaction.**

10 A. As I mentioned previously, like all transactions, this Proposed Transaction is likely to
11 have an impact on rates. While the rates of the DELCORA customers are reasonably
12 expected to increase, either on their own, or whether acquired by the Company, when
13 part of Aqua, there is more flexibility and opportunity to deal with those impacts over a
14 much larger customer base. The Company's current rate base per customer for its
15 existing systems included in its most recent rate case is \$7,750. As calculated above, the
16 approximate purchase price per connection of DELCORA's retail customers is \$2,250.
17 Therefore, the Company is acquiring these customers at less rate base per customer than
18 its existing systems, which indicates there are economies of scale that will be realized
19 from this Proposed Transaction. This benefits both existing and acquired customers.

20
21 **Q. Is the impact on rates outweighed by other positive factors from the Proposed**
22 **Transaction?**

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1 A. Yes. While there is an expectation of increased rates as a result of the Proposed
2 Transaction, this is not unexpected. The possibility of increased rates is noted by the
3 Commonwealth Court in *McCloskey*. The positive factors from the Proposed Transaction
4 outweigh the possibility of increased rates. These types of transactions further a
5 recognized legislative objective and are consistent with the Commission's
6 consolidation/regionalization policy. The Company's application demonstrates that there
7 will be both tangible and intangible positive factors that are likely realized as a result of
8 the Proposed Transaction, including capital improvements and economies of scale.

9
10 **V. SUMMARY OF PUBLIC BENEFITS**

11 **Q. Please summarize the benefits of the Proposed Transaction as set forth in the**
12 **Application and the direct testimony in support of the Application.**

13 A. The Proposed Transaction will provide numerous public benefits to both existing
14 customers and the acquired DELCORA customers. The benefits below are summarized
15 from the Application and from direct testimony submitted in support of the Application:

- 16 • The majority of the sale proceeds will be placed in an irrevocable Trust that will
17 benefit DELCORA customers for years to come;
- 18 • Aqua is familiar with the DELCORA service areas and serves populations of nearly
19 500,000 in Delaware County and 200,000 in Chester County;
- 20 • Economies of scale will result from the these nearby and overlapping service areas;
- 21 • DELCORA customers will benefit from Aqua's experience in large-scale capital
22 planning and replacement programs;

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- 1 • DELCORA customers will benefit from customer protections provided by the
2 Commission's regulations and the Company's Helping Hand program;
- 3 • Aqua has committed to preserving the jobs of DELCORA employees;
- 4 • Aqua has a proven record of environmental stewardship of wastewater systems;
- 5 • Aqua's expertise in implementing large scale projects and compliance with
6 Pennsylvania Department of Environmental Protection and US Environmental
7 Protection Agency regulations;
- 8 • The combining of systems and customers provides inherent stability in the day to day
9 utility operations, in that, these systems do not all require major capital investments at
10 the same time and, therefore, spreads the financial impacts over the long term
11 operations of the utility.
- 12 • DELCORA's customers will become part of a larger-scale, efficiently operated, water
13 and wastewater utility.
- 14 • By virtue of the Company's larger combined customer base, future infrastructure
15 investments across the Commonwealth, driven by normal replacement cycles,
16 emergency repairs, emergency response or compliance with new environmental
17 regulations, will be shared at a lower incremental cost per customer for all of Aqua's
18 customers over time;
- 19 • The elimination of the treatment expense to PWD will allow DELCORA to control its
20 own destiny and offset the potential risk of future increases.

21

22 **VI. CONCLUSION**

23 **Q. Does this conclude your testimony?**

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1 Yes, it does. However, I reserve the right to supplement my testimony as additional
2 issues and facts arise during the course of this proceeding.

Aqua Pennsylvania Wastewater, Inc.
DELCORA Wastewater Regional Authority

1.) DELCORA Wastewater Regional Authority

	<u>Year 1</u>	<u>Notes</u>
Revenue	\$ 70,978,127	
O&M	41,808,283	
Depreciation	8,247,040	***2.72% Composite Depreciation Rate
Taxes Other	1,585,974	
Income Taxes	\$ 3,807,858	*****21% Federal & 9.99% State
Operating Income	\$ 15,528,972	
Rate Base at Fair Market Value	\$ 276,500,000	
Capital Investments (Year 1)	\$ 26,700,000	
Rate Base (Including Capital Investments less depreciation year 1)	\$ 294,952,960	
Interest Expense ^	6,160,815	
^ Includes Interest Expense synchronized with rate base		
Required Operating Income (Rate Base x Rate of Return)	\$ 21,749,079	
Operating Income Deficiency	\$ 6,220,107	
Gross Revenue Conversion Factor	1.432171	
Revenue Deficiency (Excess) \$	\$ 8,908,000	
Revenue Deficiency (Excess) %	12.55%	
Increase applied to Acquired (Authority) customers 100%	\$ 8,908,000	
Increase %	12.55%	
Increase applied to Acquired (Authority) customers 50%	\$ 4,454,000	
Increase %	6.28%	
Increase applied to Existing (Company Wastewater) customers 50%	\$ 4,454,000	
Increase %	14.32%	
Increase applied to Existing (Company Water) customers (Act 11)	\$ 19,971,532	
Increase %	4.58%	

	Avg. Usage / Kgal	Estimated Monthly Increase	Estimated Percentage Increase
Impact Existing Customers (DELCORA) - Western Retail - Residential/Commercial 100%	6.81	\$ 4.92	12.55%
Impact Existing Customers (DELCORA) - Western Retail - Residential/Commercial (Marcus Hook) 100%	3.91	\$ 4.30	12.55%
Impact Existing Customers (DELCORA) - Western Retail - Residential/Commercial (Minimum Accounts) 100%	1.56	\$ 1.13	12.55%
Impact Existing Customers (DELCORA) - Western Retail - Residential/Commercial (Minimum Accounts Marcus Hook) 100%	1.40	\$ 1.54	12.55%
Impact Existing Customers (DELCORA) - Western Retail Industrial 100%	735.87	\$ 640.01	12.55%
Impact Existing Customers (DELCORA) - Western Wholesale 100%	19,238.04	\$ 6,946.25	12.55%
Impact Existing Customers (DELCORA) - Western Wholesale Industrial 100%	40,014.58	\$ 15,969.86	12.55%
Impact Existing Customers (DELCORA) - Western Chester Ridley Creek 100%	65,395.83	\$ 28,725.91	12.55%
Impact Existing Customers (DELCORA) - Eastern Authority 100%	362,465.28	\$ 123,279.64	12.55%
Impact Existing Customers (DELCORA) - Eastern Other (Rose Valley Pump Station) 100%	N/A	\$ 10.17	12.55%
Impact Existing Customers (DELCORA) - Eastern Other (Pocopson - Riverside) 100%	N/A	\$ 9.94	12.55%
Impact Existing Customers (DELCORA) - Eastern Other (Pocopson - Preserve) 100%	N/A	\$ 14.64	12.55%
Impact Existing Customers (DELCORA) - Eastern Other (Edgemont - Residential) 100%	4.08	\$ 13.33	12.55%
Impact Existing Customers (DELCORA) - Eastern Other (Edgemont - Commercial) 100%	29.49	\$ 48.66	12.55%
Impact Existing Customers (DELCORA) - Other (Spring Hill Farms) 100%	N/A	\$ 8.72	12.55%
Impact Existing Customers (DELCORA) - Western Retail - Residential/Commercial 50%	6.81	\$ 2.46	6.28%
Impact Existing Customers (DELCORA) - Western Retail - Residential/Commercial (Marcus Hook) 50%	3.91	\$ 2.15	6.28%
Impact Existing Customers (DELCORA) - Western Retail - Residential/Commercial (Minimum Accounts) 50%	1.56	\$ 0.56	6.28%
Impact Existing Customers (DELCORA) - Western Retail - Residential/Commercial (Minimum Accounts Marcus Hook) 50%	1.40	\$ 0.77	6.28%
Impact Existing Customers (DELCORA) - Western Retail Industrial 50%	735.87	\$ 320.01	6.28%
Impact Existing Customers (DELCORA) - Western Wholesale 50%	19,238.04	\$ 3,473.12	6.28%
Impact Existing Customers (DELCORA) - Western Wholesale Industrial 50%	40,014.58	\$ 7,984.93	6.28%
Impact Existing Customers (DELCORA) - Western Chester Ridley Creek 50%	65,395.83	\$ 14,362.95	6.28%
Impact Existing Customers (DELCORA) - Eastern Authority 50%	362,465.28	\$ 61,639.82	6.28%
Impact Existing Customers (DELCORA) - Eastern Other (Rose Valley Pump Station) 50%	N/A	\$ 5.08	6.28%
Impact Existing Customers (DELCORA) - Eastern Other (Pocopson - Riverside) 50%	N/A	\$ 4.97	6.28%
Impact Existing Customers (DELCORA) - Eastern Other (Pocopson - Preserve) 50%	N/A	\$ 7.32	6.28%
Impact Existing Customers (DELCORA) - Eastern Other (Edgemont - Residential) 50%	4.08	\$ 6.67	6.28%
Impact Existing Customers (DELCORA) - Eastern Other (Edgemont - Commercial) 50%	29.49	\$ 24.33	6.28%
Impact Existing Customers (DELCORA) - Other (Spring Hill Farms) 50%	N/A	\$ 4.36	6.28%
Impact Existing Customers (Company Wastewater) - Residential - 50%	3.02	\$ 9.78	14.32%
Impact Existing Customers (Company Wastewater) - Commercial - 50%	21.94	\$ 30.76	14.32%
Impact Existing Customers (Company Wastewater) - Industrial - 50%	3.20	\$ 7.92	14.32%
Impact Existing Customers (Company Water) - Residential	4.08	\$ 2.99	4.58%
Impact Existing Customers (Company Water) - Commercial	37.05	\$ 18.77	4.58%
Impact Existing Customers (Company Water) - Industrial	211.51	\$ 88.39	4.58%

2.) Rate of Return

	<u>Ratio</u>	<u>Cost Rate</u>	<u>WACC</u>
Debt	47.15%	4.43%	2.09%
Equity	52.85%	10.00%	5.29%
	100.00%		7.37%

3.) Gross Revenue Conversion Factor

Dollar of Revenue		1.0000
Less: Gross Receipts (Revenue) Tax	0.00%	0.0000
Less: Reg Assessments	0.62%	0.0062
Less: Bad Debts	1.17%	0.0117
State Taxable Income		0.982053
State Income Tax	9.9999%	0.0982
Federal Taxable Income		0.883848772
Federal Tax Rate	21.00%	
Federal Income Tax		0.185608
Net Revenue Dollar		0.69824052992
Gross Revenue Conversion Factor		1.43217123
EFT	28.8999%	

Aqua Pennsylvania Wastewater, Inc.
Calculation of DELCORA Wastewater Regional Authority - Present Revenues

	Rate 2020	Customers 2020	Method	Gallons (Kgals) 2020	EDU's 2020	Revenue 2020
Service Charges:						
<u>Western</u>						
<u>Western Retail:</u>						
Residential/Commercial	\$5.75	13,600	per 1,000 Gallons Water Used	1,111,649		\$6,391,982
Residential/Commercial (Marcus Hook)	\$8.78	891	per 1,000 Gallons Water Used	41,761		\$366,662
Minimum Accounts	\$107.73		Annual Minimum Charge	3,869		\$416,807
Minimum Accounts (Marcus Hook)	\$147.23		Annual Minimum Charge			\$0
Subtotal Retail Residential:		14,491		1,157,279		\$7,175,451
<u>Western Retail Industrial (*) (^):</u>						
Industrial	\$6.93	7	per 1,000 Gallons	61,813		\$428,364
Subtotal Western Retail:		14,498		1,219,092		\$7,603,815
<u>Western Wholesale:</u>						
Western Wholesale (^)	\$2.87	6	per 1,000 Gallons	1,204,150		\$3,455,911
Brook Haven	\$2.89	1	per 1,000 Gallons	270,981		\$783,135
Nether Providence	\$2.89	1	per 1,000 Gallons	371,721		\$1,074,274
Subtotal Western Wholesale:		8		1,846,852		\$5,313,319
<u>Western Wholesale Industrial (*) (^):</u>						
Western Wholesale Industrial	\$3.18	6	per 1,000 Gallons	2,881,050		\$9,161,739
<u>Chester Ridley Creek (^):</u>						
Southwest Authority	\$3.50	1	per 1,000 Gallons	967,250		\$3,385,375
Middletown	\$3.50	1	per 1,000 Gallons	602,250		\$2,107,875
Subtotal Chester Ridley Creek:		2		1,569,500		\$5,493,250
Total Western:		14,514		7,516,494		\$27,572,123
<u>Eastern</u>						
Central Delaware County Authority (^)	\$2.71	1	per 1,000 Gallons	3,832,500		\$10,386,075
Darby Creek Joint Authority (^)	\$2.71	1	per 1,000 Gallons	7,482,500		\$20,277,575
Muckinipates Authority (^)	\$2.71	1	per 1,000 Gallons	1,733,750		\$4,698,463
Total Eastern Authority Area:		3		13,048,750		\$35,362,113
<u>Other</u>						
<u>Rose Valley Pump Station:</u>						
Rose Valley Residents	\$972.00	373	Annual Per EDU		373	\$362,556
Nether Providence Residents	\$972.00	127	Annual Per EDU		127	\$123,444
		500		36,500		\$486,000
<u>Pocopson:</u>						
Riverside	\$950.00	160	Annual Per EDU		160	\$152,000
Preserve	\$1,400.00	66	Annual Per EDU		66	\$92,400
		226		21,654		\$244,400
<u>Edgmont (^):</u>						
Residential	\$1,275.00	679	Annual Per EDU	33,238	679	\$865,725
Commercial (Service Charge)	\$1,025.00		Annual Per EDU		152	\$155,800
Commercial (Volumetric Charge)	\$10.25	35	per 1,000 Gallons Water Used	12,387		\$126,967
		714		45,625		\$1,148,492
<u>Other Remote Locations</u>						
Spring Hill Farms		371		35,547		\$309,422
Other						\$140,578
Total Other Systems:		1,811		139,326		\$2,328,892
<u>Other Charges:</u>						
Residual Waste Disposal						\$5,000,000
Effluent Usage						\$90,000
Load Surcharge (*)						\$325,000
Other Fees (Late, Bad Debt)						\$300,000
Total Other Charges:						\$5,715,000
Total Revenue at Present Rates		16,328		20,704,570		\$70,978,127

(*) The surcharge rate is set at \$.32/lb. of Biochemical Oxygen Demand (BOD) and \$.285/lb. for Suspended Solids (SS), where BOD or SS strength exceeds 300 mg/L on a daily basis. Wastestreams with SS strengths exceeding 300 mg/L and generated from biological, chemical, or physical processes shall be evaluated and billed independently of other wastestreams. Wastestreams generated from processes to remove river water sediment or sediment from other natural bodies of water and with SS strengths exceeding 300 mg/L shall be evaluated and billed independently of other wastestreams.

(^) Billed on an estimated basis with true up to actual volume (quarterly/annually)

Aqua Pennsylvania Wastewater, Inc.***Calculation of DELCORA Wastewater Regional Authority - Operating and Maintenance Expenses*****OPERATING AND MAINTENANCE EXPENSES:**

	<u>Year 1</u>
O&M Labor Exp Reg	\$ 11,638,300
O&M Labor Exp OT	1,129,932
O&M Employee Benefits	6,837,151
O&M Purchased WW Treatment	11,327,262
O&M Purchased Power	2,690,100
O&M Chemicals	990,000
O&M Mgmt Fees	720,000
O&M Cust Ops ACO (@ \$10.00 per customer)	180,000
O&M OS Engineering	197,500
O&M OS Legal	230,000
O&M OS Operations	1,252,500
O&M OS Maintenance	2,848,450
O&M OS Other	869,950
O&M Supplies	464,938
O&M Other	432,200
Total O&M Expenses =>	<u><u>\$ 41,808,283</u></u>

Aqua Pennsylvania Wastewater, Inc.***Calculation of DELCORA Wastewater Regional Authority - Taxes Other Than Income***

<u>TAXES OTHER THAN INCOME (PRE-RATE CASE)</u>	<u>Rate</u>	<u>Year 1</u>
Payroll Taxes (FICA, FUTA, SUTA)	8.000%	\$ 931,064
Property Taxes / (Purta)		\$ 631,705
Regulatory Assessments	0.624%	\$ 23,205
Total		<u>\$ 1,585,974</u>

Docket No. R-2018-3003558

Schedule A-2
Witness: William C. Packer

AQUA PENNSYLVANIA, INC.
NUMBER OF CUSTOMERS SERVED
AND WHOSE BILLS WILL BE CHANGED

LINE NO.	CUSTOMER CLASS	SERVED AT 3/31/2017	SERVED AT 3/31/2018	TO BE SERVED AT 3/31/2019	TO BE SERVED AT 3/31/2020	INCREASED BILLS	DECREASED BILLS	UNCHANGED BILLS
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	Metered:							
2	Residential	391,514	394,192	395,423	396,654	396,654	-	-
3	Commercial	22,264	22,460	22,598	22,737	22,733	4	-
4	Industrial	781	779	776	773	773	-	-
5	Public	1,254	1,256	1,256	1,256	1,256	-	-
6	Bulk Water	-	-	-	-	-	-	-
7	Private Fire Protection	5,197	5,301	5,403	5,504	5,504	-	-
8	Sales to Water Utilities	17	16	16	16	16	-	-
9	Total Metered Customers	421,027	424,004	425,472	426,940	426,936	4	-
10	Other:							
11	Unmetered	903	943	943	943	943	-	-
12	Availability Charge	2,801	2,769	-	-	-	2,769	-
13	Public Fire Protection	263	263	263	263	263	-	-
14	Private Fire Protection	766	779	779	779	779	-	-
15	Total Customers	425,760	428,758	427,457	428,925	428,921	2,773	-

Docket No. R-2018-3003561

Schedule A-2
Witness: William C. Packer

AQUA PENNSYLVANIA WASTEWATER, INC.
NUMBER OF CUSTOMERS SERVED
AND WHOSE BILLS WILL BE CHANGED

LINE NO.	CUSTOMER CLASS	SERVED AT 3/31/2017	SERVED AT 3/31/2018	TO BE SERVED AT 3/31/2019	TO BE SERVED AT 3/31/2020	INCREASED BILLS	DECREASED BILLS	UNCHANGED BILLS
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	Residential	16,062	17,051	17,051	17,051	16,981	-	70
2	Commercial	1,324	1,469	1,469	1,427	1,427	42	-
3	Industrial	1	1	1	1	1	-	-
4	Public	38	40	40	40	40	-	-
5	Miscellaneous	-	-	-	-	-	-	-
6	Availability Charge	469	446	-	-	-	446	-
7	Total Customers	17,894	19,007	18,561	18,561	18,449	488	70

ADD	Limerick	Res Com Ind		4,882 315 -
ADD	East Bradford	Res Com Ind		1,213 33 2
ADD	Cheltenham	Res Com Ind Pub		9648 534 14 23
Total Existing WW Customers				35,225

Wastewater Settlement Revenues => Exhibit 1(b) from 2018/2019 APWW Rate Case =>	\$ 17,920,976
Add East Bradford WW	\$ 1,082,402
Add Limerick WW	\$ 4,771,000
Add Cheltenham WW	\$ 7,321,678
Total Existing Revenues	<u>\$ 31,096,256</u>

Docket No. R-2018-3003558

Water Settlement Revenues => Exhibit 1(b) from 2018/2019 APWW Rate Case =>	\$ 473,763,919
Residential	\$ 307,623,471
Commercial	\$ 111,880,600
Industrial Revenues	\$ 16,482,317
Total Existing Revenues (Res, Com, & Ind classes)	<u>\$ 435,986,388</u>

AQUA PENNSYLVANIA, INC.

1-A(a) WATER AND 1-B(b) WASTEWATER REVENUE REQUIREMENT - SUMMARY

	Total Company	Water Operations	Wastewater Operations
Present Rate Revenue	\$ 444,858,981	\$ 431,415,676	\$ 13,443,305
Additional Revenue Requirement	47,002,319	35,263,332	11,738,987
Act 11 Allocation (1)	-	7,261,316	(7,261,316)
Proposed Revenues	<u>\$ 491,861,300</u>	<u>\$ 473,940,324</u>	<u>\$ 17,920,976</u>
Rate Increase/(Decrease) - \$	\$ 47,002,319	\$ 42,524,648	\$ 4,477,671
Rate Increase/(Decrease) - %	10.57%	9.86%	33.31%

(1) **Notes:**
The allocation between wastewater operations and water operations is achieved by the proposed consolidation of water and wastewater revenue requirements to derive the water and wastewater rates proposed by the Company in this case.

Aqua Pennsylvania, Inc
Residential Average Monthly Bill Comparison - Wastewater
Docket Nos. A-2018-3004108, A-2018-3004109, R-2018-3003558 and R-2018-3003561

	<u>Current Division</u>	<u>New Rate Zone</u>	<u>Avg Consumption</u>	<u>Present Rates</u>	<u>Settlement Rates</u>	<u>\$ Change</u>	<u>% Change</u>	<u>Metered Number of Bills</u>	<u>Metered & Unmetered Number of Bills</u>
1	Bridlewood Division	1	4,100	43.04	67.48	24.44	56.79%	3,908	3,908
2	CS Sewer Division (Masthope)	6	1,300	28.99	40.94	11.95	41.22%	15,517	15,578
3	Deerfield Knoll Division	3	3,000	57.87	71.50	13.63	23.55%	1,426	1,426
4	Eagle Rock Division	1	1,900	39.67	45.44	5.77	14.54%	11,704	11,716
5	East Bradford Division	5	5,400	106.43	125.84	19.41	18.24%	972	972
6	Laurel Lakes Division	3	4,200	51.49	81.70	30.21	58.67%	2,348	2,372
7	Links at Gettysburg Division	3	2,700	63.58	68.95	5.37	8.45%	2,046	2,046
8	Little Washington Division	5	3,400	98.05	106.64	8.59	8.76%	4,152	4,164
9	Media Division	1	4,200	42.19	62.92	20.73	49.13%	20,733	20,773
10	Newlin Green Division	5*	6,500	158.75	158.75	0.00	0.00%	588	588
11	Peddlers View Division	4	4,100	78.44	100.95	22.51	28.70%	2,564	2,564
12	Penn Township Division	1B	3,400	40.70	55.00	14.30	35.14%	3,148	3,148
13	Plumsock Division	5	5,300	107.12	124.88	17.76	16.58%	456	456
14	Rivercrest Division	2	3,200	45.22	61.92	16.70	36.93%	5,785	5,869
15	Stony Creek Division	3	2,500	54.86	67.25	12.39	22.58%	2,558	2,558
16	The Greens at Penn Oaks Division	5	3,500	106.38	107.60	1.22	1.15%	838	850
17	Thornhurst Division	3	2,600	52.36	68.10	15.74	30.06%	3,538	3,538
18	Treasure Lake Division	1A	3,000	40.52	49.90	9.38	23.15%	25,259	25,590
19	Twin Hills Division	4	4,200	70.15	101.90	31.75	45.26%	3,947	3,947
20	White Haven Division	2	2,900	47.07	59.49	12.42	26.39%	5,568	5,736
21	Willistown Woods Division	3	3,100	54.92	72.35	17.43	31.74%	8,888	8,888
22	Woodloch Springs Division	3	2,000	51.87	63.00	11.13	21.46%	4,907	4,987
23	Beech Mountain Lakes Division	3	Unmetered	56.04	80.00	23.96	42.76%		11,234
24	Bunker Hill Subdivision	1A	Unmetered	31.92	56.20	24.28	76.07%		790
25	Emlenton Borough Division	2	Unmetered	45.00	68.40	23.40	52.00%		4,416
26	Honeycroft Village Division	4	Unmetered	66.67	100.00	33.33	49.99%		1,250
27	Lake Harmony Division	4	Unmetered	65.63	100.00	34.37	52.37%		12,033
28	New Daleville Division	4	Unmetered	74.17	100.00	25.83	34.83%		1,272
29	Pinecrest Division	2	Unmetered	\$44.28	\$68.40	\$24.12	54.48%		4,002
30	Tobyhanna Township Division	4	Unmetered	66.67	100.00	33.33	49.99%		6,453
31	Sage Hill	5*	Unmetered	180.00	180.00	0.00	0.00%		251
WEIGHTED AVERAGE Metered			3,018		62.09				
WEIGHTED AVERAGE ALL					68.27				


5* - Special Charges have been assigned to these divisions within Rate Zone 5.
All Residential Customers are charged a customer charge on an EDU basis with the exception of the Media and Treasure Lake Divisions, which are charged a customer charge based on the appropriate meter size of the applicable Rate Zone. Media and Treasure Lake rates above represent a 5/8" meter.

Pinecrest Division's Present Rate is based on the weighted average of the present rates of all customers both inside Pinecrest and outside Pinecrest.

Bridlewood Division's Average Consumption and Present Rate are based on the weighted average of both townhome and single family home customers.

As per the Asset Purchase Agreement, the Tobyhanna Division rate increase will not become effective until January 1, 2020.

Aqua Pennsylvania, Inc
Commercial Average Monthly Bill Comparison - Wastewater
Docket Nos. A-2018-3004108, A-2018-3004109, R-2018-3003558 and R-2018-3003561

	<u>Current Division</u>	<u>New Rate Zone</u>	<u>Avg Consumption</u>	<u>Present Rates</u>	<u>Settlement Rates</u>	<u>\$ Change</u>	<u>% Change</u>	<u>Number of Bills</u>
1	CS Sewer Division (Masthope)	6	24,800	41.33	64.44	23.11	56%	96
2	Eagle Rock Division	1	11,700	52.02	124.92	72.90	140%	323
3	Links at Gettysburg Division	3	20,000	216.93	216.00	-0.93	0%	24
4	Media Division	1	15,700	111.87	150.32	38.45	34%	3,388
5	Penn Township Division	1B	88,800	873.10	955.50	82.40	9%	507
6	Rivercrest Division	2	12,200	92.66	134.82	42.16	45%	108
7	The Greens at Penn Oaks Division	5	78,400	798.26	1,122.64	324.38	41%	12
8	Tobyhanna Township Division	4	9,600	86.00	153.20	67.20	78%	1449
9	Treasure Lake Division	1A	31,700	153.53	230.71	77.18	50%	382
10	Village at Valley Forge Division	1A	144,500	1,054.42	1,220.35	165.93	16%	243
11	White Haven Division	2	5,700	50.60	82.17	31.57	62%	463
12	Willistown Woods Division	3	3,200	55.23	73.20	17.97	33%	1,428
13	Woodloch Springs Division	3	117,000	62.62	71.50	8.88	14%	98
14	Avon Grove School District	5*	Unmetered	6,625.00	8,281.25	1656.25	25%	
15	Beech Mountain Lakes Division	3	Unmetered	69.74	80.00	10.26	15%	
16	Bridlewood Division	1	Unmetered	38.42	61.40	22.98	60%	
17	Emlenton Borough Division	2	Unmetered	45.00	68.40	23.40	52%	
18	Honeycroft Rillage Division	4	Unmetered	466.69	700.00	233.31	50%	
19	Lake Harmony Division	4	Unmetered	65.63	100.00	34.37	52%	
20	Pinecrest Division	2	Unmetered	\$52.32	\$68.40	16.08	31%	
WEIGHTED AVERAGE - METERED ONLY			21,936		214.73			

5* - Special Charges have been assigned to these Divisions within Rate Zone 5.

All Residential Customers are charged a customer charge on an EDU basis with the exception of the Media and Treasure Lake Divisions, which are charged a customer charge based on the appropriate meter size of the applicable Rate Zone. Media and Treasure Lake rates above represent a 5/8" meter.

Bridlewood Division's Present Rate and Settlement Rate are based on the weighted average of the EDU rate charged to the 2 commercial customers.

Woodloch Springs Division's Present Rate and Settlement Rate are based on the customer charge per EDU.

As per the Asset Purchase Agreement, the Tobyhanna Division rate increase will not become effective until January 1, 2020.

Aqua Pennsylvania, Inc
Industrial Average Monthly Bill Comparison - Wastewater
Docket Nos. A-2018-3004108, A-2018-3004109, R-2018-3003558 and R-2018-3003561

	<u>Current Division</u>	<u>New Rate Zone</u>	<u>Meter Size</u>	<u>Avg Consumption</u>	<u>Present Rates</u>	<u>Settlement Rates</u>	<u>\$ Change</u>	<u>% Change</u>
7	Media Division	1	5/8"	3,200	36.13	55.32	19.19	53%

Aqua Pennsylvania, Inc
Residential Average Monthly Bill Comparison - Water
Docket Nos. A-2018-3004108, A-2018-3004109, R-2018-3003558 and R-2018-3003561

	<u>Current Division</u>	<u>New Rate Zone</u>	<u>Present Rates*</u>	<u>Settlement Rates*</u>	<u>\$ Change</u>	<u>% Change</u>	<u>Number of Bills</u>	<u>Consumption</u>	<u>Average Gallons</u>
1	Main Division Eagle Rock, Fawn Lake, Tanglewood, Thornhurst, Woodledge Village, Western & Pinecrest Divisions	1	\$59.85	\$65.52	\$5.67	9.47%	4,173,338	172,154,838	4,125
2		3	59.85	65.52	5.67	9.47%	36,516	737,618	2,020
3	Bensalem Division	1	55.80	65.52	9.72	17.42%	179,147	7,534,487	4,206
4	Chalfont Division	2	47.27	65.52	18.25	38.61%	25,821	1,021,170	3,955
5	Oakland Beach/Lakeside Acres Division	3	57.04	65.52	8.48	14.87%	11,344	261,978	2,309
6	CS Water Division (Masthope)	3	49.36	65.52	16.16	32.74%	15,615	204,095	1,307
7	Country Club Gardens Division	1	40.29	52.98	12.69	31.50%	4,979	223,135	4,482
8	Clarendon Water Division	1	51.05	65.52	14.47	28.34%	3,407	109,345	3,210
9	Kratzerville Division	1	52.29	65.52	13.23	25.30%	1,727	58,671	3,398
10	Honesdale Division	1	52.20	65.52	13.32	25.52%	17,272	632,741	3,663
11	Sand Springs Division	1	40.73	52.98	12.25	30.08%	5,023	168,199	3,349
12	Mifflin Township Division	1	37.11	50.64	13.53	36.46%	5,606	176,827	3,154
13	Beech Mountain Lakes Division	1	21.45	31.73	10.28	47.93%	11,187	369,388	3,302
14	Treasure Lake Division	2	27.20	40.15	12.95	47.61%	25,311	765,777	3,026
15	Concord Park Division	2	30.88	43.91	13.03	42.20%	1,980	77,030	3,890
16	Bristol Township Water System Division	1	24.24	38.40	14.16	58.42%	5,089	226,795	4,457
17	Mt Jewett Borough Division	1	45.95	65.52	19.57	42.59%	4,832	155,007	3,208
18	Bunker Hill Subdivision	Bunker Hill	12.88	26.36	13.48	104.66%	779	31,897	4,097
19	Robin Hood Lakes Division	1	40.16	53.09	12.93	32.20%	2,397	67,756	2,826
20	East Cameron Division	1	57.02	65.52	8.50	14.91%	609	12,076	1,982
21	Sun Valley Division**	Sun Valley	15.00	19.50	4.50	30.00%			
22	Superior Water Company	2	57.02	65.52	8.50	14.91%	47,018	2,045,060	4,350
WEIGHTED AVERAGE				65.20					4,080

*Residential water rates are based on 5/8" meter and an average consumption of 4,080 gallons per month for all divisions.

**Sun Valley customers are flat rate, unmetered customers.

Aqua Pennsylvania, Inc
Commercial Average Monthly Bill Comparison - Water
Docket Nos. A-2018-3004108, A-2018-3004109, R-2018-3003558 and R-2018-3003561

	<u>Current Division</u>	<u>New Rate Zone</u>	<u>Meter Size</u>	<u>Avg Consumption</u>	<u>Present Rates</u>	<u>Settlement Rates</u>	<u>\$ Change</u>	<u>% Change</u>	<u>Number of Bills</u>
1	Main Division Eagle Rock, Fawn Lake, Tanglewood, Thornhurst, Woodledge Village, Western	1	5/8"	37,800	\$380.00	\$419.63	\$39.63	10.43%	236,233
2	& Pinecrest Divisions	3	5/8"	13,800	171.34	186.73	15.39	8.98%	665
3	Bensalem Division	1	5/8"	50,700	468.54	531.51	62.97	13.44%	15,289
4	Chalfont Division	2	5/8"	7,100	70.32	102.49	32.17	45.75%	1,678
5	Oakland Beach/Lakeside Acres Division	3	5/8"	5,500	84.39	93.45	9.06	10.74%	381
6	CS Water Division (Masthope)	3	5/8"	42,300	426.00	468.66	42.66	10.01%	57
7	Country Club Gardens Division	1	5/8"	33,900	271.22	333.27	62.05	22.88%	11
8	Clarendon Water Division	1	5/8"	9,900	93.91	135.81	41.90	44.62%	252
9	Kratzerville Division	1	5/8"	7,600	82.56	108.44	25.88	31.35%	23
10	Honesdale Division	1	5/8"	12,600	133.84	164.18	30.34	22.67%	3,789
11	Sand Springs Division	1	2"	40,800	309.80	523.34	213.54	68.93%	12
12	Mifflin Township Division	1	5/8"	19,600	112.70	174.80	62.10	55.10%	369
13	Beech Mountain Lakes Division	1	5/8"	23,000	51.34	95.40	44.06	85.82%	60
14	Treasure Lake Division	2	5/8"	30,800	121.26	185.24	63.98	52.76%	393
15	Concord Park Division	2	4"	487,300	2,226.92	3,381.86	1,154.94	51.86%	12
16	Bristol Township Water System Division	1	5/8"	14,800	116.15	146.76	30.61	26.35%	1,785
17	Mt Jewett Borough Division	1	5/8"	2,200	33.07	44.18	11.11	33.60%	444
20	East Cameron Division	1	3/4"	300	50.00	34.04	(15.96)	-31.92%	28
22	Superior Water Company	2	5/8"	8,400	99.18	117.96	18.78	18.94%	1,077
	WEIGHTED AVERAGE			37,047		409.72			

Aqua Pennsylvania, Inc
Industrial Average Monthly Bill Comparison - Water
Docket Nos. A-2018-3004108, A-2018-3004109, R-2018-3003558 and R-2018-3003561

	<u>Current Division</u>	<u>New Rate Zone</u>	<u>Meter Size</u>	<u>Avg Consumption</u>	<u>Present Rates</u>	<u>Settlement Rates</u>	<u>\$ Change</u>	<u>% Change</u>	<u>Number of Bills</u>
1	Main Division	1	5/8"	231,500	\$1,897.56	\$2,099.59	\$202.03	10.65%	8,254
3	Bensalem Division	1	1"	53,500	523.48	590.30	66.82	12.76%	853
4	Chalfont Division	2	2"	37,000	358.73	484.19	125.46	34.97%	57
5	Oakland Beach/Lakeside Acres Division	3	5/8"	76,500	691.26	765.28	74.02	10.71%	12
10	Honesdale Division	1	5/8"	23,200	222.27	275.01	52.74	23.73%	72
17	Mt Jewett Borough Division	1	1"	600	22.11	59.64	37.53	169.74%	24
	WEIGHTED AVERAGE			211,513		1,930			

MEMORANDUM OF UNDERSTANDING
BETWEEN THE
DELAWARE COUNTY REGIONAL WATER QUALITY CONTROL AUTHORITY
AND
AQUA PENNSYLVANIA WASTEWATER, INC.

_____, 2020

This Memorandum of Understanding (“MOU”) between the Delaware County Regional Water Quality Control Authority, a body corporate and politic existing under the Pennsylvania Municipal Authorities Act, 42 P.S. 5601, *et seq.* (“DELCORA”) and Aqua Pennsylvania Wastewater, Inc. (“Aqua Wastewater”) is being entered into as of [inset date] in support of a certain agreement dated September 17, 2019, as amended on February 24, 2020, between DELCORA and Aqua Wastewater (“Sewer System Sale Agreement”) under which DELCORA has agreed to sell and Aqua Wastewater has agreed to purchase certain sewer equipment and facilities of DELCORA’s serving various residential, commercial, industrial, and municipal customers in Delaware County and Chester County, Pennsylvania (“Sewer System”).

DELCORA and Aqua Wastewater, individually a “Party” and collectively the “Parties” intend for this MOU to be legally binding upon them and be construed and subject to the laws of the Commonwealth of Pennsylvania.

The purpose of this MOU is to set forth the Parties’ general understanding and agreement regarding how Aqua Wastewater can assist with applying a payment to DELCORA customers bills from the net proceeds to be received by DELCORA from Aqua Wastewater from the sale of the Sewer System under the Sewer System Sale Agreement.

The Parties acknowledge that DELCORA has separately established a trust under the DELCORA Rate Stabilization Fund Trust Agreement dated December 27, 2019 (the “Trust Agreement”), into which the net sale proceeds, along with investment earnings thereon and any other amounts contributed to the Trust, will be distributed in accordance with the Trust Agreement.

This MOU shall be effective on the date specified above (“Effective Date”) and shall be filed with the Pennsylvania Public Utility Commission (“PUC”) under Section 507 of the Pennsylvania Public Utility Code (“Code”), 66 Pa. C. S. § 507. On and after the Closing:

1. Aqua Wastewater shall issue a bill to each DELCORA customer for each billing period using the full cost of service rates authorized by the PUC.
2. The customer assistance payment for each DELCORA customer for each billing period shall be applied to each DELCORA customer bill.
3. Aqua Wastewater shall calculate the customer assistance payment amount for each DELCORA customer and the total customer assistance payment amount for each billing period, and shall provide its calculation, along with any and all information

necessary to confirm the calculation of both payment amounts to the designated calculation agent.

4. DELCORA shall timely direct the Trustee under the Trust Agreement to transfer to Aqua Wastewater by Fedwire an amount equal to the total customer assistance amount confirmed by the designated calculation agent for the applicable billing period.
5. The Parties shall at all times cooperate with each other and the designated calculation agent to implement this MOU timely.

Dated: _____

Aqua Pennsylvania Wastewater, Inc.

By: _____

Name: _____

Title: _____

Dated: _____

Delaware County Regional Water Quality
Control Authority

By: _____

Name: _____

Title: _____

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

AQUA PENNSYLVANIA WASTEWATER, INC.

DOCKET NO. A-2019-3015173

AQUA STATEMENT NO. 2-R

**REBUTTAL TESTIMONY OF
WILLIAM C. PACKER**

**With Regard To:
Public Benefit
Arms' Length Negotiation and County Position Re Request for Proposal
DELCORA Customer Trust
Response to Portions of the Testimony of Other Witnesses**

October 20, 2020

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AQUA PENNSYLVANIA WASTEWATER, INC.
REBUTTAL TESTIMONY OF WILLIAM C. PACKER

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is William C. Packer. My business address is 762 West Lancaster Avenue,
Bryn Mawr, Pennsylvania 19010.

Q. By whom are you employed and in what capacity?

A. I am employed by Aqua Pennsylvania, Inc. (“Aqua PA”), as Vice President – Controller
and I also oversee certain financial operations for Aqua America, Inc. (“Aqua America”)
and its subsidiary Aqua New Jersey, Inc. (“Aqua NJ”). Aqua PA is the parent company
to Aqua Pennsylvania Wastewater, Inc. (“Aqua” or the “Company”).

**Q. Are you the same William C. Packer who submitted direct testimony in this
proceeding?**

A. Yes. I submitted direct testimony with the Application filed with the Pennsylvania Public
Utility Commission (“PUC” or the “Commission”) on March 3, 2020.

Q. What is the purpose of your rebuttal testimony?

A. My rebuttal testimony addresses portions of the direct testimony of I&E witness Lisa A.
Gumby, OCA witness Ralph C. Smith, OSBA witness Brian Kalcic, the County of
Delaware, Pennsylvania (“Delaware County” or the “County”) witnesses Stan Faryniarz
and Brian Zidek, SPMT witnesses Edward Human and Howard J. Woods, Jr., Kimberly
Clark witness Thomas Brooks and Municipal Protestants witnesses Samantha Reiner
(Edgmont Township), Joseph Possenti, Jr. (Lower Chichester Township), Cecilia Nelson

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(Southwest Delaware County Municipal Authority) and Michael J. Ciach (Upland Borough).

Q. Are you sponsoring any exhibits or schedules with your rebuttal testimony?

A. Yes. I am sponsoring:

- WCP-2R Schedule A – 20 year Revenue Requirement Calculation (County and SPMT).
- WCP-2R Schedule B –Sample Bill.
- WCP-2R Schedule C – I&E Response to Aqua IROG VII – 2.
- WCP-2R Schedule D – I&E Response to Aqua IROG VII-1.
- WCP-2R Schedule E – Aqua Supplemental Response to OCA-I-36.
- WCP-2R Schedule F – November 19, 2003 Letter from DELCORA to Kimberly-Clark.
- WCP-2R Schedule G – DELCORA Response to Kimberly-Clark IROG-I-1.

Q. Before proceeding further, would you please summarize the positions of the other parties as they relate to your rebuttal testimony?

A. Yes. Concerning the three statutory advocates, I&E recommends certain conditions if the Commission determines to approve the Application. OCA testimony states that, *as proposed*, Aqua has not supported the Application and then presents a list of conditions if the Commission approves it. OSBA recommends, as a condition for approval, that the Commission require Aqua to begin to consolidate DELCORA's rates with the Company's system-wide average wastewater rates in its next base rate case. The County,

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SPMT and KCC challenge the public benefits of the transaction (“Proposed Transaction”). The Municipal Protestants have rate setting concerns under Aqua ownership. Concerning rate impact and rate setting, I want to emphasize that Aqua is not proposing any rate changes in this proceeding. In the following sections of my rebuttal testimony, I first address several topics of special significance to the Proposed Transaction raised by other parties. I then address the testimony of other parties’ witnesses under separate headings.

II. PUBLIC BENEFIT

Q. In the Introductory section of your rebuttal testimony, you testified that other parties were concerned with the rate impact of the Proposed Transaction and rate setting. Are rate impact and rate setting considered in weighing the public benefit of the Proposed Transaction?

A. I addressed the public benefits of the Proposed Transaction at length in my direct testimony. Although I am not an attorney, I addressed rate impact in the context of the Commonwealth Court’s decision in *McCloskey v. Pa. P.U.C.* and discussed how an expectation of increased rates is outweighed by the other positive benefits of the Proposed Transaction. While there may be an increase in rates as a result of the Proposed Transaction, this is not unexpected. The positive factors from the Proposed Transaction outweigh the possibility of increased rates. These types of transactions further a recognized legislative objective and are consistent with the Commission’s consolidation/regionalization policy. The Application demonstrates that there will be both tangible and intangible positive benefits that are likely realized as a result of the

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Proposed Transaction, including capital improvements and economies of scale. Here, in rebuttal to the concerns of other parties with rate impact and rate setting, I emphasize the following:

- The economies of scale an acquisition of this size can bring are substantial, and the Commission has recognized this fact as demonstrated by the longstanding success of leading public water utility purveyors providing quality and reliable service in the Commonwealth.
- The purchase price of DELCORA is reasonable, supported by appraisals, was negotiated at arms' length, and considers the long-term relationship of infrastructure investment and rates.
- The purchase price per customer is less than the Company's existing rate base per customer.
- Stand-alone residential rates at DELCORA's full cost of service are lower than the Company's existing rates.
- Aqua is a growing wastewater utility that has the ability to utilize its larger customer base to share costs that more than offset the cost of capital and income tax differences between municipal and private ownership emphasized by the opponents to the Proposed Transaction.
- The Company's analysis of the long-term projections of revenue requirement is conservative, and there are regulatory tools at the Company's disposal to further reduce revenue requirement impacts of federal and state income tax through lower taxes with the election of tax repair.
- The Company's Appendix A has been utilized in numerous Public Utility Code Section 1329 Applications, and the methods used to forecast impacts have been reviewed and approved in at least three Aqua proceedings before the Commission.
- At a 12.55% first year difference in revenue requirement, the Proposed Transaction provides the lowest increase to the acquired DELCORA customers of those Fair Market Value ("FMV") applications submitted to the Commission by Aqua.

Q. Will it be beneficial to the former DELCORA customers that their rates will be reviewed by the Commission if the Proposed Transaction is approved?

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1 A. Yes. As is typical for the customers of municipal utility operations, currently
2 DELCORA retail customers can protest what they consider to be unreasonable
3 proposed rates by bringing legal actions against new rates in the Court of Common
4 Pleas. In contrast, under Commission jurisdiction, there are public input hearings and
5 public advocates that will advocate for customers' interests in rate proceedings. An
6 Administrative Law Judge will recommend a result and the Commission will review
7 and issue a final decision on future rates. An appellate court review option is also
8 available for any Commission final orders considered unfair or unlawful. Wholesale
9 customers will also have the right and opportunity to participate in this process and
10 any proposed rate increases reviewed by the Commission. All customers will receive
11 the benefit of the detailed rate protections reflected in the Public Utility Code.
12 Although several parties have expressed concerns about future Aqua rates if the
13 Proposed Transaction is approved and the Commission assumes jurisdiction over rates,
14 the rate protections under Commission jurisdiction are extremely robust and will be a
15 benefit to customers.

17 **III. ARMS' LENGTH NEGOTIATION AND COUNTY POSITION THAT DELCORA**
18 **ISSUE A REQUEST FOR PROPOSAL**

20 **Q. County witnesses Faryniarz and Zidek criticize the Proposed Transaction, claiming**
21 **that negotiations were not conducted at arms' length, and ask the Commission to**
22 **direct DELCORA to issue a Request for Proposal ("RFP") for the purchase of the**
23 **system. Was the Asset Purchase Agreement ("APA") negotiated at arms' length?**

24 A. Yes. Aqua and DELCORA are not affiliated with each other. The APA was negotiated
25 over a number of months. The parties had separate counsel and separate transactional

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1 consultants. In addition, Aqua and DELCORA followed the Section 1329 process as
2 required by the Pennsylvania Public Utility Code and Commission regulations. I further
3 address Mr. Faryniarz's claim of a lack of arms' length negotiation in my response to Mr.
4 Faryniarz's testimony.

5
6 **Q. Is a bidding process or a RFP required to demonstrate arms' length negotiation?**

7 A. No. Although I am not an attorney, I am not aware that a bidding process or RFP is a
8 legal requirement for the sale of the DELCORA wastewater system. In addition, a
9 bidding process is not required for an arms' length negotiation.

10
11 **Q. Do you agree with Mr. Zidek's recommendation that the Commission should**
12 **require DELCORA to initiate a RFP process?**

13 A. No. Although I am not an attorney, I do not believe that the Commission should order
14 DELCORA to initiate an RFP process, and I do not believe the Commission has
15 jurisdictional authority to order DELCORA to initiate an RFP for the purchase of the
16 DELCORA system as recommended by Mr. Zidek. My belief is based on the fact that
17 municipal authorities are not regulated by the Commission and DELCORA has explained
18 its reasoning for entering into a contract with Aqua in Mr. Willert's direct testimony. In
19 addition, both Aqua and DELCORA had equivalent bargaining positions in negotiating
20 the Proposed Transaction, with neither counterparty under duress to buy or sell.

21
22 **Q. Mr. Faryniarz claims the amount of the agreed to purchase price is somehow**
23 **indicative that it was not negotiated at arms' length. Do you agree with this claim?**

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1 A. No. The negotiated purchase price of \$276,500,000 is less than the results of the Utility
2 Valuation Experts (“UVE”) appraisals, but this is not at all unusual. The negotiated
3 purchase price has been less than the UVE appraisal results in the past under Section
4 1329 FMV transactions in which I have been involved. Moreover, the purchase price
5 reached was a factor of 1.5x (\$276.5M / \$184M) the approximate book value of
6 DELCORA at \$184M. This amount is not out of line with transactions of this nature in
7 my experience. Lastly, any purchase price negotiation considers both short and long term
8 investments as a result of any deal, their relationship to purchase price, and ultimately the
9 effect on utility rates, all of which were considered in this transaction. These factors
10 demonstrate – contrary to the County’s claim – that the Proposed Transaction resulted
11 from completely arms’ length negotiations.

12 Additionally, not all parties agree with the UVE appraisal results. OCA witness
13 Smith proposes adjustments to the UVE appraisals that result in a recommended FMV of
14 \$280,655,000. While we disagree with Mr. Smith’s adjustments, his recommended FMV
15 of \$280,655,000 is approximately equal to the negotiated purchase price of \$276,500,000.

16 Moreover, Mr. Faryniarz’s characterization of the purchase price on p.8 lines 2-5,
17 where he stated that the purchase price was agreed upon “following negotiations and after
18 review of two independent appraisals,” seems to suggest that Mr. Faryniarz believes that
19 the two independent appraisals were conducted *prior* to entering into the APA and
20 establishing the purchase price. This is not the case. The APA was dated September 17,
21 2019, the Gannett Fleming Appraisal was delivered on February 22, 2020, and the
22 ScottMadden Appraisal was delivered on February 20, 2020.

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IV. THE DELCORA CUSTOMER TRUST

Q. Other parties' witnesses address the DELCORA Customer Trust (the "Trust"). Is approval of the decision to create the Trust a part of this proceeding?

A. No. Under the Trust, DELCORA will take a portion of the proceeds of the Proposed Transaction and place them into a trust for the benefit of customers in the former DELCORA service territory. Separate from the Trust is an administrative request from DELCORA and Aqua to apply bill assistance payments to DELCORA customers from the Trust through Aqua's billing process. The Trust is briefly summarized in the direct testimony of Mr. Willert. I also discuss it in my direct testimony only in relation to the bill assistance payment proposed to be placed on Aqua's bills to DELCORA customers. To be clear, Aqua's position is that the Trust is non-jurisdictional to the Commission, and we are not seeking Commission approval of the Trust.

Q. Do other parties take a position on the Trust in their testimony?

Yes. I address the testimony of the other parties in my response to individual witnesses. Where some parties take issue with the Trust, OCA witness Mr. Smith states that if the Commission approves the Proposed Transaction the bill assistance payment should be itemized to clearly show the benefit of the Trust payment and regular reports should be filed on the application of the payments.

V. RESPONSE TO I&E WITNESS LISA A. GUMBY

A. Public Benefit Concerns

Q. What is I&E witness Gumby's concern with the Proposed Transaction?

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1 A. At pages 8 through 10 of her direct testimony, Ms. Gumby expresses concern with
2 pending litigation in the Delaware County Court of Common Pleas against DELCORA
3 that could conclude with the dissolution of DELCORA and/or the County stepping into
4 DELCORA's shoes as seller for purposes of the APA. While not taking a position on
5 any litigation between Delaware County and DELCORA, she recommends that the
6 Proposed Transaction not be permitted to close until Aqua and DELCORA provide the
7 Commission with a "guarantee" that the pending litigation in Delaware County Court will
8 not change (1) DELCORA's status as a bona fide seller and (2) will not result in any
9 change to the terms of the APA.

10
11 **Q. Is the guarantee recommended by Ms. Gumby necessary?**

12 A. No. I have been advised by counsel that the Delaware County Court proceeding involves
13 matters that are not jurisdictional to the Commission. I have also been advised by
14 counsel that the Delaware County Court action concerns (a) a challenge to the Trust
15 arrangement and (b) the County's desire to dissolve DELCORA. Neither of these
16 challenges affects the continued efficacy of the APA. Delaware County, in fact, has not
17 filed a pleading challenging the APA in the Delaware County Court action. The Trust
18 arrangement is not part of the APA.

19
20 **Q. Please opine further on Ms. Gumby's request for a guarantee.**

21 A. While I am not an attorney, I have been advised by counsel that DELCORA, as a
22 municipal authority, has all the rights, powers and duties that are set forth in the
23 Municipal Authorities Act ("MAA"), including the right and power to sell its system to a

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1 regulated utility, such as Aqua, and that, even if it is determined by the Delaware County
2 Court that DELCORA may dissolve DELCORA prior to closing, the APA would become
3 a binding obligation of the County.

4 I have also been advised by counsel that the APA was duly authorized and entered
5 into by DELCORA at a public meeting, in full compliance with law and the MAA. Thus,
6 the APA constitutes a binding, enforceable agreement and contractual obligation of
7 DELCORA.

8 I am also aware that the APA contains many provisions regarding the
9 representations of DELCORA. The APA is fundamentally based upon DELCORA
10 having the knowledge required to make the representations and warranties upon which
11 Aqua relied in agreeing to the APA and establishing the terms thereof, including the
12 purchase price. The APA contains multiple provisions which in effect mandate that
13 DELCORA proceed to closing on the sale to Aqua prior to any dissolution of DELCORA
14 by the County, which provisions can only be satisfied by DELCORA prior to closing, and
15 not the County.

16 Counsel has also advised me that the foregoing are not jurisdictional to the
17 Commission. Concerning Commission authority and the recommendation of a guarantee,
18 I am not aware of any Commission Order requiring a “guarantee” similar to what Ms.
19 Gumby is requesting here in connection with the APA and other approvals being sought
20 in this proceeding. The APA reflects a presently existing and binding contractual
21 obligation between Aqua as buyer and DELCORA as seller. DELCORA is an
22 authority/entity separate and apart from the County. And DELCORA, as an independent
23 authority, had and continues to have the ability to enter into contracts like the APA. Any

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1 transaction brought to the Commission for approval could potentially be subject to
2 current or future litigation, but that potential should not be a bar to the Commission's
3 consideration and approval of the Application because of the overwhelming public
4 benefits of the Proposed Transaction, which support approval of the Application.
5

6 **B. Irrevocable Trust Arrangement**

7 **Q. Can you briefly summarize I&E witness Gumby's concern with the DELCORA**
8 **Trust?**

9 A. Ms. Gumby states that there will be no direct benefit to existing Aqua customers from the
10 Trust as the funds from it will only be distributed to DELCORA customers. She also
11 states, upon advice of counsel, that the application of the proceeds as a bill assistance
12 payment would be a violation of Section 1303 of the Public Utility Code. She
13 recommends that, to the extent that it relies on the issuance of bills that are lower than
14 tariff rates, the irrevocable Trust should be rejected.
15

16 **Q. Is Ms. Gumby addressing DELCORA's use of the proceeds from the Proposed**
17 **Transaction?**

18 A. No. Ms. Gumby emphasizes that she is not addressing DELCORA's use of the Proposed
19 Transaction sale proceeds. It is only the presentation of the Trust payment as a bill
20 assistance payment on the Aqua bill that she is challenging.
21

22 **Q. Do you agree with Ms. Gumby?**

AQUA PENNSYLVANIA WASTEWATER, INC.
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1 A. No. While I acknowledge that existing Aqua customers will not receive bill assistance
2 payments from the Trust and, thus, will not benefit directly from it, Aqua customers will
3 benefit from the Proposed Transaction for the reasons I summarized at length in my
4 direct testimony and that I addressed further above in Section II. I disagree with Ms.
5 Gumby that the application of the Trust proceeds as a customer bill assistance payment
6 would violate Section 1303 of the Code. Aqua's bills to DELCORA's customers will
7 present the charge for wastewater service at the full tariff rate. Only after showing the
8 full tariff rate will the bill assistance payment from the Trust be applied and shown on the
9 bill. Although I am not an attorney, based on my own review and communication with
10 counsel, it seems to me that the presentation of the full tariff rate minus the bill assistance
11 payment does not violate Section 1303.

12
13 **Q. Have you reviewed Ms. Gumby's discussion regarding how she believes the bill**
14 **assistance process in the Proposed Transaction is the same situation that was**
15 **reviewed in the City of Scranton acquisition?**

16 A. I have reviewed Ms. Gumby's Direct Testimony on the Trust and I disagree with her
17 recommendation.

18
19 **Q. Please expand on the basis of your disagreement.**

20 A. As referenced above, I&E finds the Trust arrangement problematic because the bill
21 assistance payment to customers from the Trust will only apply to customers in the
22 former DELCORA service territory, not existing Aqua customers, and the bill assistance
23 payment will only continue for a limited period and for a limited amount (I&E St. No. 1,

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p. 14). The fact that the Trust payment is extended only to customers in the former DELCORA service territory does not diminish the bill assistance payment as a public interest benefit since there are many parties that comprise elements of the public interest, including existing customers, future customers, utility employees and the community at large. Not all benefits impact these constituencies in the same way or to the same degree. In the case of the Trust, limiting the bill assistance payment to customers in the DELCORA service territory is reasonable since the Proposed Transaction proceeds that fund the Trust arose from a sale of the assets used to provide service to these customers over the decades DELCORA has existed. I&E is correct that the estimated Trust amount and its expected duration is limited; however, the total payment amount and expected payment period are substantial – i.e., \$200 million and eight to twelve years. The Trust assures eligible customers that the effect of the bill assistance payment will result in 3% annual increases per year for approximately a decade, a protection which is a considerable benefit. It is true that the customer bill assistance payments will not last forever, but I cannot think of a payment or credit to utility customers' bills that lasts indefinitely.

Q. Did I&E indicate it had any other problems with the proposed customer assistance Trust payment?

A. Yes. While not offering a legal opinion, Ms. Gumby's concern with the Trust payment appears to be I&E's interpretation that the proposed payment is in conflict with Section 1303 of the Public Utility Code and the Recommended Decision ("RD") analysis performed by Administrative Law Judges David A. Salapa and Steven K. Haas in

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Pennsylvania American Water Company's ("PAWC") acquisition of the Scranton Sewer Authority ("SSA") at Docket No. 2016-2537209 (August 17, 2016) ("PAWC-SSA Transaction") (I&E St. No. 1, pp. 12-17).

Q. Do you agree with I&E's concerns?

A. No, I do not. Like Ms. Gumby, I am not a lawyer. Nor am I offering a legal opinion on this issue. However, I have discussed I&E's position with counsel. Moreover, I am a rate expert who has participated in a number of rate cases before the Commission and have a working knowledge of the scope of charges and payments that could be elements of a customer's bill. In addition, I carefully reviewed the RD cited by I&E.

Q. Why do you disagree with I&E's position?

A. I disagree with I&E for the following reasons. First, in the PAWC-SSA Transaction, the final purchase price would not be known for ten years after closing of the transaction. In that matter, unlike here, there was the possibility that the transaction/purchase price could increase if annual revenues increased by more than a 1.9% compound annual growth rate. If that situation occurred, the increase to the purchase price (called a "variance adjustment") would be returned to customers in the former SSA service territory potentially either by PAWC (if permitted by the Commission) or by the SSA. The uncertainty of the final purchase price was a particularly significant negative factor for the ALJs in the PAWC-SSA Transaction because they believed they had to determine whether the total purchase price was reasonable. Neither the Proposed Transaction price nor the mechanism for a customer assistance payment are uncertainties in this case. The

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1 purchase price for the Proposed Transaction is fixed and known now, and DELCORA has
2 committed to fund a specific customer assistance payment benefiting customers with the
3 net proceeds of the Proposed Transaction that will be on the Aqua bill.

4
5 **Q. Please expand on the differences between *Scranton* and the Proposed Transaction.**

6 A. The ALJs' concerns that a trued-up purchase price could negatively impact other PAWC
7 customers is also not present in this case because there is no true-up to the purchase price
8 that Aqua must later fund. Also, the ALJs in the PAWC-SSA Transaction found that
9 PAWC's role in either directly returning the variance adjustment to customers (without
10 the funds going to the SSA) or paying for the costs of a third party administrator to return
11 the variance adjustment to customers on behalf of the SSA, placed PAWC in the role of
12 providing customers a discount on their tariffed rates. Therefore, the ALJs found that
13 PAWC would be engaging in a practice similar to the one found unlawful by the
14 Commonwealth Court in the *Philadelphia Suburban* case.¹ In contrast, Aqua's role in
15 this case is quite different from PAWC's in the PAWC-SSA transaction. The source of
16 funds for the proposed customer assistance payment is DELCORA's transaction
17 proceeds, not new funds provided by Aqua post-Closing. Therefore, Aqua is not and
18 cannot be viewed as discounting its own rates. Also, the amount of the customer
19 assistance payment for each customer is reviewed and approved by DELCORA as settlor
20 of the Trust.

21

¹ *Philadelphia Suburban Water Co. v. Pa.P.U.C.*, 808 A 2d 1044 (Pa. Cmwlth. 2002)(*"Philadelphia Suburban"*).

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1 **Q. Please further describe how the Proposed Transaction differs from the PAWC-SSA**
2 **Transaction.**

3 A. It appears the ALJs ruled out the possibility that the Commission could modify the terms
4 of the asset purchase agreement that prescribed how the variance adjustment would be
5 handled to eliminate any unlawful aspects, even though the Commission was being asked
6 to review and approve that agreement. That approach seems at odds with the well-
7 recognized Commission practice and provisions of the Public Utility Code that allow the
8 Commission to approve applications under Chapter 11 of the Public Utility Code subject
9 to conditions designed to address specific issues that arise in the proceeding. In this case,
10 Aqua and DELCORA have presented the Memorandum of Understanding (“MOU”) for
11 review and approval, and expect that the Commission would condition its approval on
12 any modifications of the MOU that it deemed necessary.²

13
14 **Q. Do you agree with I&E that placing the DELCORA customer bill assistance**
15 **payment as a separate line item on Aqua’s bill is discounting Aqua’s tariffed rates?**

16 A. No, I do not. There is no question that former DELCORA customers will be charged the
17 rates as reflected in Aqua’s Commission-approved tariff at all times. However, under
18 Commission regulation, it is not unusual for those tariffed charges to be reduced by line
19 item payments or credits on a customer’s bill that reflect third party funds provided to the
20 utility, just as is being proposed by the MOU. For example, the Low-Income Home
21 Energy Assistance Program (“LIHEAP”) is a federally funded program administered by
22 the Pennsylvania Department of Human Services. I do not believe that LIHEAP funding

² The updated executed MOU is attached to my rebuttal testimony as WCP-2R Exhibit E.

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1 is included in any utility's tariff. Under this program, cash grants are sent to the utility so
2 that amounts can be credited to the customer's bill. For 2021, LIHEAP has an estimated
3 Pennsylvania budget of \$200 million.³ The *PA LIHEAP Plan* directs public utilities to
4 apply LIHEAP cash component benefits to the monthly "asked to pay" amount.⁴ Under
5 LIHEAP, essentially a third party supplies funds to the utility, which then credits
6 amounts charged to customers pursuant to tariffed rates. This is precisely what Aqua and
7 DELCORA are proposing in this proceeding. I do not believe the Commission has ever
8 concluded that LIHEAP credits are violations of Section 1303 or represent improper and
9 discriminatory discounting of tariff rates by the utility.

10
11 **Q. Are there any other examples of permitted third party funded payment or credits to**
12 **customer bills you can cite?**

13 A. Aqua operates a low income payment assistance program, Helping Hand Program, for its
14 customers. In this program, Helping Hand participants receive a bill assistance payment
15 that reduces the amount the utility customer owes and is shown as a credit on their bill.
16 As shown in Rebuttal Exhibit WCP-2R Schedule B, a sample Aqua bill, there is a line
17 item called "Helping Hand Credit" that reduces a customer's past due amount which is
18 part of the customer's total bill. The sources for funding the Helping Hand Program
19 include amounts contributed by Aqua shareholders, and voluntary contributions by third
20 parties such as Aqua customers. The operation of the Helping Hand Credit is analogous
21 to the bill assistance payment proposed in this proceeding and, to my knowledge, has
22 never raised the concern that a utility's tariffed rates are being unlawfully adjusted.

³ Commonwealth of Pennsylvania Low-Income Home Energy Assistance Program Fiscal Year 2021, Final State Plan (*PA LIHEAP Plan*).

⁴ *PA LIHEAP Plan*, vii.

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1

2 **Q. Are there any other standard billing practices that you feel are relevant to the issue?**

3 A. Yes. Commission-approved customer assistance programs (“CAP”) discount tariffed
4 rates to customers who meet income eligibility standards. It is noteworthy that the
5 Commission has found it acceptable in connection with CAP to approve actual discounts
6 to tariffed rates. That is not what we are seeking here. However, the similarity between
7 CAP and the Trust arrangement is, if the latter is approved in this proceeding, that both
8 will reduce the ultimate bill the customer has to pay, and both would be reflected on
9 customers’ bills by Commission authorization.

10

11 **Q. Did the Commission recently approve a similar payment on the bill for utility**
12 **customers?**

13 A. Yes. The Commission approved a one-time credit to be placed on the bills of Aqua and
14 Peoples Natural Gas LLC and Peoples Gas LLC customers, which reduced the bills to
15 those customers.⁵

16

17 **Q. Are there any other aspects of I&E’s position on the Trust proposal you wish to**
18 **comment on?**

19 Yes. In discovery, I&E indicated that there was no difference between bill credits
20 funded by the utility or a third party, and that both constituted an unlawful rate subsidy.

21 However, if such a return of sales proceeds was unrelated to billings and tariffed rates as

⁵ *Joint Application of Aqua America Inc., Aqua Pennsylvania Inc., Aqua Pennsylvania Wastewater Inc., and Peoples Natural Gas Company LLC for All of the Authority and Necessary Certificates of Public Convenience to Approve a Change in Control of Peoples Natural Gas Company LLC by Way of the Purchase of All of LDC Funding LLC’s Membership Interests by Aqua America Inc.*, Docket No. A-2018-3006061 et seq., Ordering Paragraph No. 6 (Jan 24, 2020).

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1 generated by Aqua subsequent to the sale, I&E would not consider such a sharing of sales
2 proceeds inappropriate. Attached as WCP-2R Schedule C is I&E's Response to Aqua-
3 VII-2. As I have explained above, there are third party funded bill credits the
4 Commission supports that I&E may not have taken into consideration. When queried as
5 to whether I&E would not object to the Trust credit if DELCORA provided it directly to
6 customers and not through the Aqua bill. I&E indicated that the lawfulness of such an
7 approach would depend on how DELCORA established and disbursed the credits and if
8 the distributed proceeds were not related to billings and tariffed rates, then I&E would
9 not consider such a sharing of the sale proceeds inappropriate. WCP-2R Schedule D
10 (I&E Response to Aqua-VII-1). It is unclear that if the Aqua bill and a check from
11 DELCORA arrived at the customer's location in separate mailings on the same day, I&E
12 would object if the amount of the DELCORA check was a flat amount, and not based on
13 Aqua's charges to the customer.

14
15 **Q. Based on your understanding, what does I&E believe to be a permissible mechanism**
16 **for the operation of the Trust?**

17 A. As stated above, I&E would not consider such a sharing of the sale proceeds
18 inappropriate as long as some additional conditions were met. In my view, what the
19 Aqua-DELCORA Trust proposal adds to what I&E considers a permissible approach is
20 that it ensures a more equitable distribution of the amount of the customer assistance
21 payments, rather than a random or one-size fits all approach. So long as the customer
22 assistance payment line on the bill is clear that the payment is DELCORA-provided,
23 which our sample bill does make clear, I do not think there would be any customer

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1 perception that Aqua was charging less than its tariff rates. Rather, it would be clear that
2 DELCORA was providing its former customers with assistance to pay their tariff-rate
3 based Aqua bill.
4

5 **Q. Do you have any further comments on the Trust issue at this time?**

6 A. I would like to clarify the status of the Trust issue in our Application. In Aqua's view,
7 the DELCORA proposed customer bill assistance payment that will flow Proposed
8 Transaction proceeds back to customers is a substantial affirmative public benefit that
9 supports Commission approval of the Proposed Transaction. That being said, the
10 proposal is not a rate stabilization plan that impacts future rates charged by Aqua after the
11 Proposed Transaction Closing or at any future point in time. The customer bill assistance
12 payment is a voluntary proposal by DELCORA that Aqua is prepared to help implement.
13

14 **C. Cost of Service Study**

15 **Q. Do you agree with Ms. Gumby's recommendation that Aqua file a Cost of Service**
16 **Study ("COSS") in its next base rate case?**

17 A. Ms. Gumby recommends that Aqua, in its next base rate case, file a separate COSS for
18 the system that separates capital expenses and operating costs for the traditional
19 wastewater system and a separate COSS for the City of Chester that further separates
20 capital expenses and operating costs with respect to sanitary and storm water functions.

21 The Company agrees with Ms. Gumby's recommendation in part, to file COSS
22 calculations separately for the DELCORA system and for the City of Chester consistent
23 with typically filed ratemaking exhibits including, but not limited to the following: Rate

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Base (Measures of Value), Statement of Operating Income, and Rate of Return, which correspond to the applicable test year, future test year, and fully projected future test year measurement periods.

VI. RESPONSE TO OCA WITNESS SMITH

Q. Please summarize the issues raised in the direct testimony of OCA witness Smith.

A. Mr. Smith testifies that, *as proposed*, Aqua has not supported the Proposed Transaction with affirmative public benefits. However, at pages 10 through 12 and, again, at pages 66 through 68, he recommends several conditions if the Commission approves the Proposed Transaction.

Q. Do you agree with Mr. Smith's recommended conditions?

A. I agree with some of Mr. Smith's recommended conditions but disagree with others. I identify and address each condition below:

- The 12.55% average rate increase for DELCORA ratepayers that Aqua has estimated could occur in the next Aqua wastewater rate case should be mitigated to avoid rate shock associated with the change in ownership. The DELCORA Customer Trust (or some acceptable alternative) should be used to limit the annual rate increases to DELCORA wastewater utility customers under Aqua ownership to no more than 3 percent annually, until the approximated \$200 million projected for funding the DELCORA Customer Trust has been fully applied for such rate increase mitigation purposes.

Aqua Response: Mr. Smith accepts the Trust. Aqua agrees with Mr. Smith that the Trust should be used to provide customer bill assistance payments to DELCORA customers, the effect of which will provide for 3% annual increases to DELCORA customers until the approximately \$200 million projected Trust funding has been fully applied.

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- 1 • While the Trust is functioning to limit increases to DELCORA customers, the
2 DELCORA customers should be a separate rate zone. The separate rate zone and its
3 separate cost of service study should remain an obligation at least as long as the Trust
4 provides the rate mitigation.
5

6 Aqua Response: Aqua agrees that the separate COSS will remain an obligation at least as
7 long as the Trust provides the bill assistance payments. As for Mr. Smith's
8 recommendation of a separate rate zone, it would not be appropriate, in my view, to
9 establish a cost allocation methodology for DELCORA rates in this proceeding. The
10 OCA would have the opportunity to address this issue and make any proposal in the
11 context of a future Aqua base rate proceeding.

- 12 • At the time of filing its next base rate case, Aqua should submit a cost of service study
13 that removes all costs and revenues associated with the operations of the DELCORA
14 wastewater system and should also provide a separate cost of service study for the
15 DELCORA system.
16

17 Aqua Response: As previously stated in response to I&E witness Gumby, Aqua, in its
18 next rate filing, will file COSS calculations separately for the DELCORA system and for
19 the City of Chester consistent with typically filed ratemaking exhibits including, but not
20 limited to, the following: Rate Base (Measures of Value), Statement of Operating
21 Income, and Rate of Return, which correspond to the applicable test year, future test year,
22 and fully projected future test year measurement periods.

- 23 • When Aqua modifies its LTIP to include the DELCORA wastewater system, any
24 DELCORA-related projects reflected in the revised LTIP should be in addition to, and
25 not reprioritize, any capital improvements that Aqua was already committed to undertake
26 for existing customers.
27

28 Aqua Response: When Aqua modifies its Long-Term Infrastructure Improvement Plan
29 ("LTIP") to include the DELCORA wastewater system, any DELCORA-related projects
30 reflected in the revised LTIP will be in addition to, and not a reprioritization of, any

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capital improvements that Aqua was already committed to undertake for existing customers.

- DELCORA must address convincingly whether it has the legal authority to transfer the wastewater utility assets and related contracts to Aqua.

Aqua Response: This condition will be addressed in the Rebuttal Testimony of Robert Willert and more fully in briefing.

- DELCORA must provide clarity as to how the DELCORA Rate Stabilization Fund Trust Agreement between DELCORA as Settlor and Univest Bank and Trust Co. as Trustee, with the Effective Date of December 27, 2019 will function to insulate DELCORA wastewater customers from rate increases.

Aqua Response: Aqua believes that the Trust Agreement is clear both regarding the establishment of the Trust and its exclusive use for the benefit of former DELCORA wastewater customers and new customers in the former DELCORA service territory. Aqua believes that the MOU provided in the Supplemental Response to OCA-I-36, and attached to my rebuttal as WCP-2R Schedule E, provides the mechanism of how the Trust payments will be applied, and therefore, this condition is not necessary.

- Aqua and DELCORA should revise the MOU to add details regarding how the Trust proceeds will be properly credited to the former DELCORA customers as set forth in responses to OCA and County discovery.

Aqua Response: The updated MOU included with my rebuttal testimony as WCP-2R Exhibit E provides the administrative mechanics to apply bill assistance payments from the Trust to customer bills, and therefore this condition is not necessary.

- The customer assistance payments from the DELCORA Customer Trust on Aqua's billings to DELCORA wastewater utility customers should be separately shown on the bills to help make this part of the public benefit transparent to the DELCORA wastewater utility customers who are receiving the bill assistance.

Aqua Response: Aqua agrees with Mr. Smith. The customer bill assistance payments from the Trust on Aqua's billings to DELCORA wastewater utility customers should be

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1 separately shown on the bills to help make this part of the public benefit transparent to
2 the DELCORA wastewater utility customers who are receiving the bill assistance.

- 3 • The operation of the DELCORA Customer Trust, i.e., the DELCORA Rate Stabilization
4 Fund should be reviewed and monitored in quarterly reports from Aqua which show how
5 amounts are being applied to reduce the Aqua rate increases to DELCORA wastewater
6 utility customers that would be occurring under Aqua ownership.

7
8 Aqua Response: Aqua agrees with Mr. Smith in part. Aqua is willing to file annual
9 reports showing how customer bill assistance payments are being applied to Aqua's bills
10 to DELCORA customers.

- 11 • In the period from the date when the acquisition is consummated through the effective
12 date of new rates for the acquired DELCORA wastewater utility customers in Aqua's
13 next base rate case, the impact on income tax expense from repairs deductions claimed by
14 Aqua on DELCORA wastewater utility system assets should be recorded in a regulatory
15 liability account and addressed in Aqua's next base rate case in which rates for the
16 acquired DELCORA wastewater utility customers are addressed.

17
18 Aqua Response: Aqua agrees with Mr. Smith's recommendation for this transaction.

19 Mr. Smith is aware of the Company's ability to utilize the tax code to reduce the revenue
20 requirement relative to income taxes, specifically through the use of what is often
21 referred to as tax repairs. Mr. Smith was the OCA witness in the Company's last base
22 rate case in which this issue was a main component, and ultimately resulted in the
23 meaningful reduction of the effective income tax rate to *near zero*. As noted by the
24 Company in discovery, the impact of tax repairs specifically related to DELCORA is not
25 readily known, or easily quantified since an extensive study is required to understand the
26 units of property, capitalization standards, and how that correlates to future investments.
27 Given the size of the DELCORA acquisition, the efforts by all parties to ensure just and
28 reasonable rates, and the parties' understanding of the inherent potential benefits of

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lowering cost of service utilizing tax repairs, the Company is amenable to this recommendation for this Application.

- The issues being raised by some of the resale customers' resale transfer of the agreements should be resolved before the transaction can close. Those agreements are tied to expected revenues.

Aqua Response: I address the arguments of the contract customers below in Sections IX, X and XI.

VII. RESPONSE TO OSBA WITNESS KALCIC

Q. Please summarize the issue raised in the direct testimony of OSBA witness Kalcic.

A. Mr. Kalcic discusses Section 7.04 of the APA and recommends that, as a condition for approval of the Proposed Transaction, the Commission require Aqua to begin to consolidate DELCORA's rates with the Company's system-wide rates for wastewater service in its next base rate proceeding. He opposes the setting of DELCORA's overall rates at full cost of service on a standalone basis in the Company's next base rate case as inconsistent with long standing single tariff pricing.

Q. Do you agree with Mr. Kalcic's recommendation?

A. No. It would not be appropriate, in my view, to establish a cost allocation methodology for DELCORA rates in this proceeding. My testimony, cited by Mr. Kalcic, already reflects Aqua's proposal to move DELCORA customers to full cost of service in the first base rate proceeding after closing of the Proposed Transaction. Moreover, in every Section 1329 application that has been approved by the Commission, the Company has been required in the first rate case after acquisition to show separate cost of service

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1 calculations and exhibits to clearly delineate the cost of service of each system.

2 Certainly, this Application presents some unique considerations that may or may not
3 impact the timing and utilization of many long-standing rate setting principles.

4 Regardless, the OSBA would have the opportunity to present a differing proposal at that
5 time. Aqua is not proposing any change in rates in this proceeding.

6
7 **VIII. RESPONSE TO COUNTY WITNESS FARYNIARZ**

8 **Q. Please summarize the issues raised in the direct testimony of Delaware County**
9 **witness Faryniarz.**

10 A. Mr. Faryniarz identifies five areas of disagreement, which he summarizes at pages 5
11 through 7 of his testimony. As further summarized, they are: 1) the Proposed Transaction
12 does not offer substantial benefits to DELCORA customers; 2) the Trust does not provide
13 funds to DELCORA customers for long enough; 3) DELCORA's cost of debt as an
14 authority is lower than Aqua's cost of debt and, as a regulated public utility, Aqua is
15 allowed to earn a regulated return on its investment; 4) the sale price for the Proposed
16 Transaction is below the average of the two UVE appraisals and, therefore, not an arms'
17 length negotiated transaction; and 5) lastly, that the Proposed Transaction is an economic
18 merger. Most of his findings, in my opinion, are duplicative, ignore the longstanding
19 principles and trend of consolidation in the water and wastewater industry and simply try
20 to undermine the benefits of a regulated public utility. I disagree with these concepts and
21 discuss them further below.

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1 **Q. Before going into the specifics of your testimony, can you generally comment on the**
2 **wastewater business?**

3 A. At the outset, I think it is important to recognize and acknowledge that the cost of
4 operating a wastewater business is higher than the costs associated with operating a water
5 business. This is due to extensive and complex treatment processes and ever-increasing
6 environmental regulations. Aqua is poised to grow and expand its wastewater operations
7 similar to how it has grown its water business. As that business grows, more customers
8 are served, thereby creating efficiencies and economies of scale. While the intervening
9 parties and Aqua have made projections in this case, predicting future rates, capital, and
10 environmental regulations a decade or more out, becomes less certain. While forecasts
11 can still be made, the reality is they are still forecasts and are subject to a multiple of
12 unknown and unknowable future circumstances that will cause the actual results to differ
13 from the projections. In my experience, the public and interested parties like to
14 understand how rates will look decades into the future, regardless of whether the entity is
15 a regulated public utility or a municipal utility. Whether its water service, wastewater
16 service, the price of gas, the price of milk, or healthcare, when making future estimates it
17 can be difficult to provide data with exact certainty.

18
19 **Q. What other factors should the Commission consider when looking at the future**
20 **wastewater business for Aqua?**

21 A. Let me point to Aqua PA's water business as an example of what is going on now in
22 Pennsylvania relative to wastewater. Aqua PA water is now serving approximately
23 450,000 customers and was built over 135 years through the acquisition of both large and

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1 small systems, viable and non-viable alike. Over its 135 years of operation, it has
2 invested millions of dollars in capital investments to upgrade utility infrastructure and
3 thus improve both the quality and reliability of the utility service to its customers. This
4 proven utility model has been supported by the Commission and enhanced through a
5 progressive approach to ratemaking and other policies. While this model is arguably a
6 successful option to municipally owned systems, I understand that regulated utilities
7 represent less than 5% of the wastewater systems in the United States. Furthermore, the
8 American Society of Civil Engineers (“ASCE”) reviews the nation’s water/wastewater
9 utility infrastructure and has given wastewater infrastructure a D+ grade.⁶ This low grade
10 likely explains why more and more municipally/government owned systems are choosing
11 to sell their wastewater utility assets to regulated public utilities. That movement is
12 happening now in Pennsylvania, and Aqua is endeavoring to build an equivalent utility as
13 it has on the water side in order to continue to make available a viable option for
14 municipalities seeking to address their vast wastewater infrastructure concerns. The best
15 evidence of this growing trend toward privatization in wastewater is Aqua’s increase in
16 connections from 19,000 in its last base rate case to more than double that number in the
17 past couple of years, largely through the acquisition of wastewater systems.

18
19 **Q. Can you provide an example to put this in context?**

20 **A.** Yes. Aqua water and wastewater utilities invested \$2.2 billion in capital from 2012 to
21 2019. In Aqua and Aqua PA’s last base rate case in 2018, the authorized increase in
22 revenues was approximately \$47 million or about 10% increase in rates. If you were to

⁶ American Society of Civil Engineers, 2017 Infrastructure Report Card, <https://www.infrastructurereportcard.org/> (Oct. 2020).

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1 assume the same level of capital investment financed by a municipal system, the interest
2 alone at 4% would cost \$92 million. Aqua is able to lower its cost of service due to its
3 size, economies of scale, and proactive investment approach as demonstrated in that 2018
4 rate case. In addition, Aqua and Aqua PA are able to reduce their cost of service relative
5 to income tax expense as I previously noted through the use of tax repairs.

6
7 **Q. Witness Faryniarz complains that the 3 percent annual rate increase is not**
8 **“guaranteed” to last through 2028. Can the 3 percent annual rate increase be**
9 **“guaranteed” to last through 2028?**

10 A. The money put into the Trust is not unlimited. And, as with all rate planning and
11 infrastructure planning, estimates are made. Aqua has estimated the life of the Trust
12 based on the best and most up-to-date information we have on DELCORA’s capital
13 infrastructure plan, in addition to Aqua’s projected annual revenue requirements. It is
14 based on our experience and expertise in operating, managing and the required rate
15 planning for a utility.

16
17 **Q. On page 14, lines 9 – 12, Witness Faryniarz complains that the payments from the**
18 **Trust increase over the life of the Trust while it is in place. Why does this occur?**

19 A. This is intentional and expected. The starting point of rates for DELCORA customers are
20 those rates in effect at closing of the Proposed Transaction that ultimately become part of
21 Aqua’s tariff. Once Aqua has established the cost of service for DELCORA in a base
22 rate case and creates new Commission-approved tariff rates, the effect of the Trust
23 payments will provide a 3% increase per annum. Aqua plans to file rate cases on three

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1 year intervals, thus the cost of service for DELCORA is expected to increase to those
2 new rates; however, the effect of the payments from the Trust will provide for a 3%
3 increase per annum. This cycle repeats itself with the first year payment between rate
4 cases being the greatest, the second is 3% lower, and the third is another 3% lower. The
5 next rate case goes into effect and the cycle continues until the Trust is exhausted of
6 funds.

7
8 **Q. With respect to Witness Faryniarz's testimony on page 15, can you expand on the**
9 **use of the Calculation Agent and his or her purpose?**

10 A. Yes. Both DELCORA and Aqua believe a third party should perform and calculate
11 payments from the Trust.

12
13 **Faryniarz Finding No. 1 – The Proposed Transaction does not Offer Substantial**
14 **Benefits to DELCORA customers**
15

16 **Q. What is Witness Faryniarz's Finding No 1?**

17 A. Witness Faryniarz asserts that the Proposed Transaction does not offer substantial
18 benefits to DELCORA customers because Aqua is a regulated public utility that falls
19 under the jurisdiction of the Commission.

20
21 **Q. Do you agree with Witness Faryniarz's assertion that there are no benefits for**
22 **DELCORA customers associated with this Application?**

23 A. Absolutely not. As a threshold matter, I want to emphasize that the County initially
24 approved DELCORA's ability to establish the Trust on December 18, 2019, thereby

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1 recognizing the public benefit of it. The legal impact of the County approval is an issue
2 before the Delaware County Court. Nevertheless, I believe the approval is significant
3 and I have been advised by Counsel that we will address it in briefing.

4 Concerning Witness Faryniarz's public interest analysis, he cherry picks the differences
5 between regulated public utilities and municipally owned systems that benefit his
6 assertions and ignores or fails to consider any of the regulatory tools available to Aqua
7 that any reasonable utility would utilize to reduce costs over time. For example, he
8 ignores consolidated ratemaking principles that water and wastewater utilities have long
9 utilized in the Commonwealth of Pennsylvania. The Application details the expected
10 benefits of the Proposed Transaction, both qualitatively and quantitatively. Similar
11 benefits have been recognized by the Commission in approving other transactions.

12
13 **Q. Does Mr. Faryniarz explain his assertion?**

14 A. Yes. Witness Faryniarz asserts that because Aqua is a regulated public utility in the
15 Commonwealth it is allowed to earn a regulated return on the investment it makes.
16 Therefore, because it is allowed to make a regulated return, the benefits of the Trust are
17 outweighed by the fact that Aqua is regulated by the Commission and allowed to earn a
18 regulated return on the investment it makes. On pages, 18 – 21 of his testimony, Witness
19 Faryniarz attempts to "isolate" the impacts to DELCORA's customers in both the near
20 and longer term. Although he does not define near and longer terms, it appears that
21 anything longer than the life of the Trust is considered "longer term." He specifically
22 states that the Trust's suppressive effect on DELCORA's revenue requirements under the
23 Proposed Transaction is limited at best and projects they will be followed by significant

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1 rate increases to DELCORA customers. He goes on to acknowledge there are benefits
2 from the Trust, but claims they are offset by Aqua's higher cost of capital.

3
4 **Q. Do you agree with Witness Faryniarz's proposition that bill assistance payments for**
5 **an eight year life of the Trust is "short lived"?**

6 A. No. Given the amount of infrastructure investment that will be made and implemented
7 by Aqua over this same time period, the life of the Trust is more than reasonable to
8 provide these bill assistance payments.

9
10 **Q. Do you agree that Witness Faryniarz has demonstrated "higher" rates for**
11 **DELCORA customers within eight years following the approval of the acquisition?**

12 A. No. Witness Faryniarz spends most of his testimony forecasting what happens after the
13 funds in the Trust are depleted. As referenced above, if the wastewater business
14 continues to grow and expand, the current operations will look different than they do
15 today, with a larger customer base and greater economies of scale. In addition, when the
16 Trust is depleted Aqua intends to utilize the regulatory tools available to it to set just and
17 reasonable rates consistent with the Public Utility Code. To be clear, included in the
18 Application filing was Appendix A to my direct testimony (Application Exhibit U2,
19 Appendix A), which provided year 1 revenue requirement, O&M costs, and projected
20 rate increase necessary to address the revenue deficiency of the DELCORA system. In
21 response to COUNTY-V-1, I provided a 10 year projection that expanded upon my
22 calculations in Appendix A to my direct testimony. Now, attached to my rebuttal
23 testimony as WCP-2R Schedule A, and reproduced below, is a further projection to 2040

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1 using the same calculation method in Appendix A and COUNTY-V-1. WCP-2R
2 Schedule A provides projections based on my knowledge and experience and the use of
3 the regulatory tools available to Aqua.

	(A.)	(A.1)	(B.)	(C.)	(D.)	(E.)	(F.)
DELCORA vs. Aqua with Trust Payments							
Year	Faryniarz Table 4 - DELCORA No Sale	SPMT - Woods - HJW-4 DELCORA no sale *^	DELCORA no sale *^	Aqua / Trust Payments ^^	Aqua w/ Trust Payments (10% Cost Spread) ^^	Difference Col. (B.) vs (C.)	Difference Col. (B.) vs (D.)
2020	\$70,978,127	\$70,978,127	\$70,978,127	\$70,978,127	\$70,978,127	\$0	\$0
2021	\$67,754,039	\$74,527,033	\$74,997,375	\$73,107,471	\$73,107,471	\$1,889,904	\$1,889,904
2022**	\$68,973,113	\$78,253,385	\$80,495,980	\$75,300,695	\$75,300,695	\$5,195,285	\$5,195,285
2023	\$75,328,305	\$82,166,054	\$87,181,320	\$77,559,716	\$77,559,716	\$9,621,605	\$9,621,605
2024	\$83,788,448	\$86,274,357	\$94,245,102	\$79,886,507	\$79,886,507	\$14,358,594	\$14,358,594
2025**	\$87,837,306	\$90,588,075	\$106,710,726	\$82,283,102	\$82,283,102	\$24,427,623	\$24,427,623
2026	\$89,407,570	\$95,117,479	\$115,808,624	\$84,751,596	\$84,751,596	\$31,057,028	\$31,057,028
2027	\$101,931,332	\$99,873,353	\$125,682,186	\$87,294,143	\$87,294,143	\$38,388,043	\$38,388,043
2028**	\$101,939,204	\$105,865,754	\$136,397,545	\$124,632,143	\$112,168,929	\$11,765,401	\$24,228,616
2029	\$113,460,959	\$105,865,754	\$139,125,496	\$149,533,281	\$134,579,952	(\$10,407,785)	\$4,545,543
2030	\$115,724,467	\$105,865,754	\$141,908,006	\$153,180,434	\$137,862,390	(\$11,272,428)	\$4,045,615
2031**	\$117,897,846	\$105,865,754	\$144,746,166	\$147,016,127	\$132,314,515	(\$2,269,962)	\$12,431,651
2032	\$120,620,368	\$105,865,754	\$147,641,089	\$150,691,531	\$135,622,377	(\$3,050,441)	\$12,018,712
2033	\$124,141,994	\$105,865,754	\$150,593,911	\$154,366,934	\$138,930,240	(\$3,773,023)	\$11,663,671
2034**	\$128,374,653	\$111,159,041	\$153,605,789	\$156,219,127	\$140,597,215	(\$2,613,338)	\$13,008,575
2035	\$131,725,551	\$111,159,041	\$156,677,905	\$160,124,606	\$144,112,145	(\$3,446,701)	\$12,565,760
2036	\$135,994,218	\$111,159,041	\$159,811,463	\$164,030,084	\$147,627,075	(\$4,218,621)	\$12,184,388
2037**	\$138,364,117	\$111,159,041	\$163,007,692	\$160,807,127	\$144,726,415	\$2,200,565	\$18,281,278
2038	\$138,644,590	\$111,159,041	\$166,267,846	\$164,827,306	\$148,344,575	\$1,440,541	\$17,923,271
2039	\$141,176,194	\$111,159,041	\$169,593,203	\$168,847,484	\$151,962,735	\$745,719	\$17,630,468
2040**	\$143,705,172	\$111,159,041	\$172,985,067	\$161,656,127	\$145,490,515	\$11,328,940	\$27,494,552
Total	\$2,297,767,573	\$2,091,085,674	\$2,758,460,617	\$2,647,093,667	\$2,445,500,436	\$111,366,950	\$312,960,181
PVRR^^^	\$1,039,447,532	\$990,743,427	\$1,239,009,481	\$1,166,503,753	\$1,095,787,772	\$72,505,728	\$143,221,709

* = 2021 - 2025 DELCORA Projected increases in rates utilized from OCA - III - 11; 2026 - 2028 Projected at 8.53% per year

** = Indicates Aqua Base Rate Case Year

^ = 2029 through 2040 Projected increases capped at 2.0%

^^ = DSIC Included between rate cases (Every 3 years 2029 - 2040) up to 5%

^^^ = Net present value of cash flows at 7.37% discount rate

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1
2 **Q. Please further explain what is in WCP-2R Schedule A.**

3 A. This Schedule rebuts Witness Faryniarz's arguments. Let me first explain this Schedule.
4 I started with Witness Faryniarz's Table 2, in which he compares his version of the
5 DELCORA (no sale) revenue requirement to the Aqua w/ Trust Revenue Requirement.
6 Notably, I have different numbers than Witness Faryniarz in my DELCORA (No Sale)
7 Column (B.). This is because I disagree with his revenue assumptions from 2021 – 2028
8 as they are not consistent with expected rate increases shown by DELCORA in Mr.
9 Pileggi's rebuttal testimony, JP-6R Schedule A. Specifically, utilizing the correct
10 assumptions for DELCORA projected rates through 2028 and then increasing the
11 remaining years 2029 – 2040 by 2% per annum, one arrives at a completely different
12 result for DELCORA's future rates than those projected by Witness Faryniarz. Column
13 C represents the revenue requirement through 2040 assuming Aqua owns the wastewater
14 system and Trust payments are applied through 2028 mid-year, and continues to calculate
15 the revenue requirement through 2040 utilizing the same methodology in my original
16 Appendix A. However, this calculation properly reflects the timing of three year rate
17 cycles and the Distribution System Improvement Charge ("DSIC") between rate cases up
18 to 5%. Column D represents the same fundamental calculations and assumptions as
19 Column C; however, it assumes that 10% of the cost of service is spread to other Aqua
20 wastewater customers after the Trust assets are fully applied in 2028; not through Act 11,
21 but just an allocation, in general, to a larger customer base. I believe this is a
22 conservative assumption after an eight year time period where the former DELCORA
23 system has gone through two base rate cases.

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Q. Please elaborate on Column D to WCP-2R Schedule A.

A. Column D is a key column in the analysis because it reflects the practical reality of utility ratemaking as a regulated public utility and demonstrates the benefits a regulated public utility offers – i.e., a larger and diverse portfolio of systems and customers to share costs, risk, and any possible rate increases. These ratemaking tools, available to all electric, gas, water and wastewater utilities in Pennsylvania, are completely ignored in Mr. Faryniarz’s analysis. As shown, the revenue requirement under Aqua with the Trust is lower in 2040 (Column D vs. Column A) than if Aqua did not acquire the DELCORA wastewater assets. Furthermore, my analysis does not even include possible benefits that could include an Act 11 shifting of costs from wastewater to water, tax repair benefits, or future growth of the DELCORA wastewater system and the Aqua wastewater business as a whole, which makes my projection of the DELCORA-Aqua revenue requirement differential a conservative estimate.

Q. How does WCP-2R Schedule A address Witness Faryniarz’s issue?

A. As stated above, when utilizing the correct DELCORA rate projections, a sale to Aqua results in an overall lower revenue requirement. My analysis includes a higher weighted cost of capital and, even with this assumption, DELCORA customers benefit under the Proposed Transaction both with and without any customer allocation by approximately \$312.9 million and \$111.4 million, respectively, over 20 years.

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1 **Q. Do you agree with Witness Faryniarz’s claim that regulated public utilities like**
2 **Aqua do not provide a benefit to DELCORA customers?**

3 A. Not at all. If one were to apply Witness Faryniarz’s logic and narrow example, no
4 regulated public utility would ever be approved to take over a municipal system. The
5 Commission understands there are inherent benefits to consolidation, benefits to
6 economies of scale, and that utilities like Aqua have the experience and expertise to
7 achieve those benefits while fulfilling their statutory obligations to provide safe,
8 adequate, and reliable utility service. DELCORA is no exception to the many examples
9 of systems that have been merged into Aqua.

11 **Q. Witness Faryniarz concludes that DELCORA customers are better off in the status**
12 **quo because, once the Trust runs out, DELCORA customers will be provided**
13 **service by a regulated public utility under the purview of the Commission that will**
14 **be able to earn a regulated return. Do you agree?**

15 A. No. Again, it seems that Witness Faryniarz’s issue is with the legislature and the Public
16 Utility Code, which allow and encourage regulated public utilities like Aqua to own,
17 operate and consolidate with other water and wastewater providers in the
18 Commonwealth. As I previously said, cherry picking the differences in cost of capital
19 and income taxes that regulated public utilities pay and concluding those differences are
20 significant enough to outweigh other public benefits, while at the same time not
21 considering other tools and benefits afforded to regulated public utilities to lower and
22 spread costs, is not consistent with countless utility acquisitions and Commission related
23 approvals.

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**Faryniarz Finding No. 2 – The Proposed Transaction Would Result in “Rate Shock”
for DELCORA Customers**

Q. What is Witness Faryniarz’s Finding No. 2?

A. Mr. Faryniarz asserts that the Trust does not provide funds to DELCORA customers for long enough and will create “rate shock”.

Q. How is Witness Faryniarz’s argument related to his first finding?

A. Mr. Faryniarz’s Finding No. 2 and argument are grounded in the same allegation that rates increase after the expiration of the Trust and after the project to expand the Western Regional Treatment Plant (“WRTP”) and divert flows from the Philadelphia Water Department (“PWD”).

Concerning Mr. Faryniarz’s argument, first, I note that in my experience, none of the typical stakeholders in rate proceedings, generally support sudden, abrupt or substantial increase in rates. In some circumstances, it may be a result of substantial infrastructure investment or, in others, the result of emerging regulatory requirements. While it does happen, all stakeholders typically strive to avoid it. Aqua will endeavor to do the same. There are regulatory mechanisms in place that are utilized effectively in each rate case that address this issue.

Q. Do you agree with Mr. Faryniarz’s Table 3?

A. No. I do not because it is not based on the reality of utility ratemaking in Pennsylvania. Specifically, there is no acknowledgement or even consideration of single tariff pricing

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1 and consolidated ratemaking. As I noted above, Aqua will be able to utilize its larger
2 footprint to share costs and address any potential rate increases, and the Commission will
3 ultimately decide these matters under longstanding Commission policy and the provisions
4 of the Public Utility Code.

5
6 **Q. Please clarify how the DSIC has been factored into your analysis?**

7 A. Aqua's capital investment projections for DELCORA include both DSIC eligible and
8 non-DSIC eligible projects. In my response to County-V-1, my expanded Appendix A
9 included revenue requirement calculations including 10 years of capital investment. It
10 did not, however, gradually increase revenues up to 5% for a DSIC surcharge specific to
11 DELCORA. Doing so would merely increase the revenue between the assumed three-
12 year rate cycle, but then lower the overall increase every third year, which is the base rate
13 case year.

14
15 **Q. In other words, do your capital projects already include any DSIC eligible work that**
16 **could be charged if Aqua amended its LTIP to include the DELCORA system in**
17 **Aqua's DSIC program?**

18 A. Yes.

19
20 **Q. Can you summarize Aqua's outlook on DSIC?**

21 A. Aqua does have the ability to amend its LTIP and begin to charge a DSIC. That being
22 said, the exact timing as to when that would happen for DELCORA is uncertain at this
23 point in time. Specifically, DSIC is not exclusive to just one of Aqua's systems. It is

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1 applied to all, regardless of location. However, it is expected that DELCORA will be
2 mostly isolated for a period of time while the Trust is in effect, and it is likely that
3 DELCORA customers would not be charged DSIC until the Trust has terminated.
4

5 **Faryniarz Finding No. 3 – DELCORA Customers Would Be Better Off If**
6 **DELCORA Remained Independent and Funded its Capital**
7 **Plan Exclusively with Publicly Backed Municipal Debt**
8

9 **Q. Please opine on Finding No. 3 made by Witness Faryniarz.**

10 A. Witness Faryniarz's Finding No. 3 is an extension of his Finding Nos. 1 and 2. His
11 underlying issue and source of concern is that, in Pennsylvania, there are regulated public
12 utilities governed by the Commission, just like in the electric and gas industry. He again
13 goes through several exercises demonstrating how different types of capital structures
14 and cost structures to fund the wastewater system can impact customer rates. If the
15 Commission looked only at capital structure and the cost of capital of a certain acquiring
16 entity over the last century to test whether an acquisition was in the public interest, it
17 would likely be a very bright line standard. However, we know that is not the case. The
18 standard of review is not whether a municipal model is better or worse than a regulated
19 public utility model. The test is whether there are substantial public benefits overall as
20 part of the transaction. Future rate increases for DELCORA customers are directly
21 related to expanding the WRTP and diverting flows from PWD so that the costs of
22 operating the DELCORA system will be within its control.
23

24 **Q. Do you agree with Witness Faryniarz's summary of how revenue requirements and**
25 **ratemaking differ between municipal authorities and regulated public utilities?**

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1 A. Generally, Mr. Faryniarz captures how a municipality or regulated public utility recovers
2 its revenue requirement. I disagree with how he characterizes the major differences
3 between the two and the numerous details he left out as I have previously testified.

4
5 **Q. Do you agree with the cost of debt used in his Table 4 analysis?**

6 A. No. As I previously testified, his Table 2 and by extension his Table 4 do not show an
7 accurate comparison between DELCORA (no Sale) and Aqua due to incorrect revenue
8 assumptions on DELCORA and not considering the realities of public utility ratemaking
9 in Pennsylvania, such as the timing of rate cases, single tariff pricing, and
10 acknowledgement of other opportunities for regulated public utilities to lower their costs,
11 such as tax repairs.

12
13 **Q. Do you agree with his weighted average cost of capital (“WACC”) analysis?**

14 A. Mr. Faryniarz uses the correct rates, but the analysis is flawed as I previously testified
15 and demonstrated in my WCP-2R Schedule A.

16
17 **Q. On page 27, Witness Faryniarz asserts that over a two decade period, DELCORA**
18 **customers will pay more under Aqua ownership than under the status quo. Do you**
19 **agree and, if not, what is your response?**

20 A. As I have previously testified and demonstrated in my WCP-2R Schedule A, this is
21 simply not the case. When you appropriately consider Aqua’s ability to utilize single
22 tariff pricing and consolidated ratemaking principles, which allow cost sharing with a
23 larger customer base over time, the Schedule, in fact, shows the opposite is true.

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Q. On page 29, Witness Faryniarz acknowledges that regulated public utilities often provide efficiencies, such as economies of scale, improved customer service and technology advancements. Do you agree?

A. Yes. In fact, DELCORA has already benefited from its relationship with Aqua. DELCORA has qualified and capable workers and professionals and they chose to collaborate and associate with Aqua given the challenges they have been dealing with and Aqua’s more developed expertise in addressing the treatment expansion project. Our collaborative efforts allowed for the engagement of both DELCORA’s and Aqua’s technical experts to take a fresh look at their capital plans and recommend meaningful enhancements to their long-term forecasts. DELCORA’s technical experts have benefited from Aqua’s expertise in the execution of a multi-million dollar project, the related challenges, and how best to approach them. Thus, I disagree with Witness Faryniarz’s claim that benefits are “unsubstantiated.” Aside from Aqua’s technical expertise and numerous professionals, there are other benefits including, but not limited to, the following:

- Utilization of the Company’s GIS/Mapping/Geocoding
- On site wastewater lab access and expert lab technicians
- Overlapping service territories thus allowing for coordinated investment strategies
- Large scale fleet vehicle program management
- Redundancy through multiple call centers in various locations
- Upgraded Information Technology and financial systems

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**Faryniarz Finding No. 4 – The Purchase Price Indicates that this is Not an Arms’
Length Transaction**

Q. What is Witness Faryniarz’s Finding No. 4?

A. Mr. Faryniarz asserts that the Proposed Transaction sale price is below the average of the two UVE appraisals and, therefore, is not an arms’ length negotiated transaction.

Q. Do you reaffirm Aqua’s position in the Application that the Proposed Transaction was negotiated at arm’s length?

A. Yes, I do. I addressed this above in Section III.

Q. Please comment on Witness Faryniarz’s discussion of when the UVEs performed their analysis?

A. I am concerned about his characterization of the Proposed Transaction purchase price on p.8 lines 2-5, where he stated that the purchase price was agreed upon “following negotiations and after review of two independent appraisals.” This is neither the sequence of events nor how the process works. The purchase price for the Proposed Transaction was not negotiated or agreed upon after review of the UVE appraisals. The UVEs conducted their appraisals *after* the purchase price for the Proposed Transaction was determined.

Q. What appears to be Witness Faryniarz’s first complaint regarding his Finding No. 4?

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1 A. He seems to equate negotiating a contract with a requirement to have a bidding or
2 proposal process. I am not a lawyer, but I am aware of many contracts that are entered
3 into without the need to have them bid out. I also note that, of the FMV transactions that
4 have come before the Commission, some have gone through a RFP process and some
5 have not. A bidding or RFP process is not a requirement to demonstrate that a
6 transaction was negotiated at arm's length.

7
8 **Q. To take a step back, what is your understanding of Act 12 of 2016 ("Act 12") and**
9 **how the UVE process works?**

10 A. My understanding is that the General Assembly wanted to encourage its policy and the
11 Commission's longstanding policy of consolidation of water and wastewater systems in
12 the Commonwealth. Act 12 focuses on the consolidation of municipal, authority or
13 government owned water and wastewater providers. The FMV given to an asset is set by
14 the certain assumptions utilized by appraisers. Sometimes appraisers utilize similar
15 assumptions and sometimes they differ. Recognizing this, the General Assembly set up a
16 process whereby differing appraisals can be averaged to act as a check on whatever the
17 negotiating entities reach as their contract price. Here, the average of the two UVE
18 appraisals was higher than the negotiated price in the APA. This does not mean the
19 Proposed Transaction is not arms' length. In fact, Act 12 has a provision that addresses
20 the scenario before us. The APA identifies a contract price that is lower than the average
21 of the two appraisals. In that event, the contract price in the APA constitutes fair market
22 value. 66 Pa. C.S. § 1329(c)(2).

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1 **Q. How does the analysis presented by OCA Witness Smith impact the County**
2 **Witnesses' argument?**

3 A. In this instance and although we disagree with the specifics of his adjustments, the
4 additional analysis performed by Witness Smith supports that the Proposed Transaction
5 purchase price of \$276 million is fair and the result of an arms' length negotiation.

6
7 **Q. Because the parties took into consideration the impact of the Proposed Transaction**
8 **price on DELCORA customer rates, does that means it was not negotiated at arms'**
9 **length?**

10 A. No, it does not. While I am not a lawyer, my understanding is that part of the review that
11 the Commission performs is the impact on rates; therefore, it is reasonable for Aqua and
12 DELCORA to consider that impact when negotiating the purchase price.

13
14 **Q. Witness Faryniarz then goes on from pages 34 – 39 of his testimony comparing**
15 **examples of both higher and lower purchase price scenarios. How do you respond**
16 **to those claims?**

17 A. The scenarios are irrelevant to the Application before the Commission. The Proposed
18 Transaction purchase price was negotiated at arms' length and referencing and attributing
19 the actual sales price reached to the subsequent appraisals and drawing conclusions is
20 wrong.

21
22 **Faryniarz Finding No. 5 – Existing DELCORA Customers Will Be Subject to**
23 **Higher Blended Rate Base Per Customer Going Forward**
24

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Q. What is Witness Faryniarz's Finding No. 5?

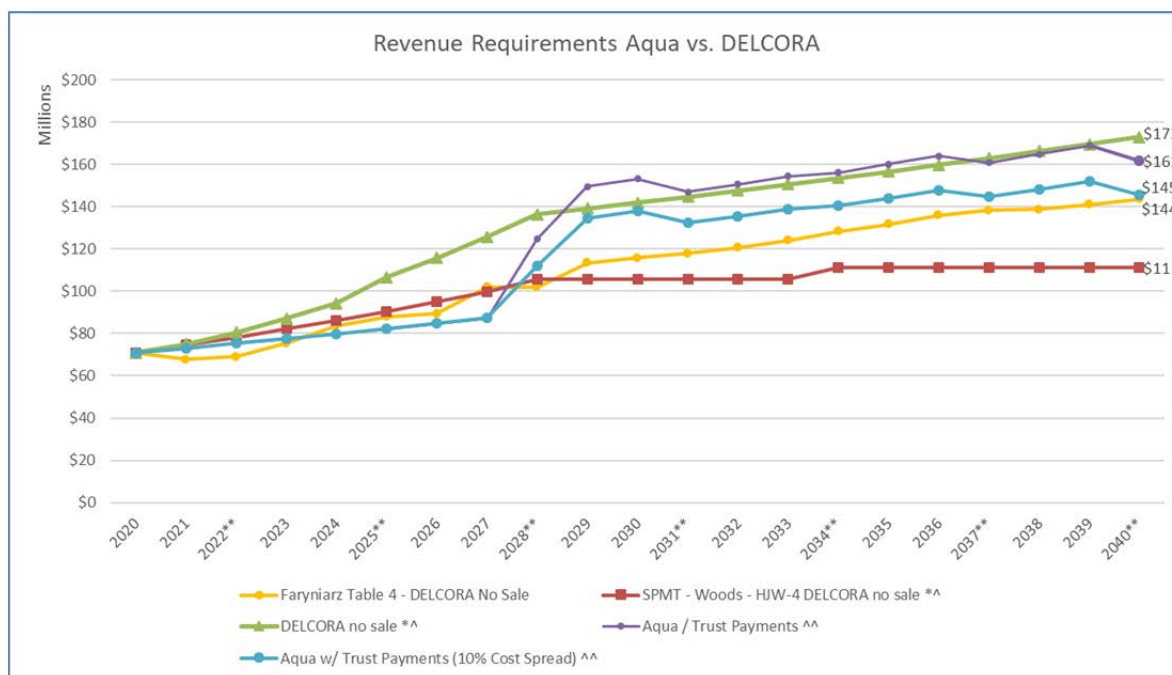
A. Mr. Faryniarz asserts that DELCORA customers will be subject to a higher blended rate base per customer going forward.

Q. Is it clear to you what Witness Faryniarz's finding specifically is?

A. No. In my view, it is not a finding but simply a statement of a known result of investing capital at a greater rate than depreciation, which exists in both DELCORA and Aqua.

Q. Please address Figure 3 on page 43.

A. Based on my previous testimony and WCP-2R Schedule A, Witness Faryniarz's Figure 3 on page 43 is incorrect and not representative of the realities of utility ratemaking in Pennsylvania. It is simply a line chart of his Table 2 to which I took exception. Alternatively, the chart below properly demonstrates an example of Aqua's ability to utilize single tariff pricing based on WCP-2R Schedule A:



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1
2 **Q. Please address Mr. Faryniarz's statement that DELCORA will have a higher rate**
3 **base per customer because Aqua will charge DELCORA customers the DSIC,**
4 **accelerate Aqua's capital program, and neither the Trust nor Act 11 mitigates these**
5 **factors. Please also address any implication that a growing customer base would**
6 **somehow negatively impact DELCORA customers.**

7 A. As I stated previously in my rebuttal testimony, I respectfully submit that Mr. Faryniarz's
8 statements are not compelling and simply state the obvious situation when an entity is
9 investing in infrastructure at a greater rate than depreciation. Of course, rate base per
10 customer will increase, however, that does not mean that Aqua will not be able to offer
11 benefits to DELCORA customers over time post acquisition. It is just a fact of utility
12 ratemaking in Pennsylvania and around the country that the sharing of costs over a larger
13 customer base benefits customers. Aqua operates many systems throughout the
14 Commonwealth and not all of them require the same level of investment at the same time.
15 DELCORA stands to benefit earlier from Aqua's ability to spread costs given the size
16 and nature of its current investment plans. That being said, a few years later, its own
17 capital investment is less than depreciation and thus rate base per customer decreases. It
18 is the diversification of systems, the time of investments, and the size of the customer
19 base that factor into the ability to spread costs among all customers in utility ratemaking.

20
21 **Q. Are you surprised that a PUC regulated utility would have a higher rate base per**
22 **customer than municipal or government owned water or wastewater providers?**

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1 A. As I mentioned in relation to the Grade D+ for wastewater infrastructure by ASCE, the
2 vast majority of which are operated by municipal/government entities. The rating is a
3 reflection of decades of underinvestment, whereas regulated public utilities, in particular
4 in Pennsylvania, are investing capital regularly and doing their part to improve safe and
5 reliable service to their customers. Hence, a higher rate base per customer is not
6 surprising.

7
8 **IX. RESPONSE TO SPMT WITNESSES HUMAN AND WOODS**

9 **Q. Please summarize the issues raised in the direct testimony of SPMT witness Woods**
10 **that you will address.**

11 A. Mr. Woods does not believe that the Proposed Transaction is in the public interest and
12 recommends that the Commission deny the Application. He states that 1) the Proposed
13 Transaction will unnecessarily increase revenue requirement; 2) the average investment
14 per customer does not demonstrate efficiencies; 3) the Proposed Transaction will result in
15 higher capital costs for DELCORA; 4) DELCORA customers will not benefit by
16 combination with a larger customer group; and 5) there are other regulatory issues
17 impacting the Proposed Transaction.

18
19 **Q. Do you agree with Mr. Woods' recommendations?**

20 A. No. Mr. Woods' testimony and recommendations are contrary to accepted practice and
21 theory and the legislated objectives of Section 1329 where the General Assembly has
22 encouraged FMV acquisition of municipal systems by public utilities. In Section II, I
23 address the public interest benefits of the Proposed Transaction and how potential rate

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1 impact is outweighed by other positive benefits. Below, I will address each of Mr.
2 Woods' specific criticisms of the Proposed Transaction. I note that many of his
3 underlying reasons for not supporting the Proposed Transaction are the same as those
4 outlined in Delaware County Witness Faryniarz's direct testimony. To the extent that
5 these reasons overlap, I will note that in my testimony.

6
7 **Q. Do you agree that the Proposed Transaction will unnecessarily increase the revenue**
8 **requirements of the DELCORA system and Aqua water and wastewater customers?**

9 A. No. The Proposed Transaction at FMV rate base will increase revenue requirement
10 consistent with and as permitted by Section 1329. Mr. Woods claims that my arguments
11 of efficiency, economies of scale, and lower incremental costs per customer are hollow
12 and should be rejected. He further restates potential rate increases that were publicly
13 noticed as a result of this Application and concludes this is not in the public interest. In
14 my opinion, I respectfully submit that while rate increases are an issue that needs to be
15 addressed in the overall analysis, simply referring to a potential rate increase in this
16 Application does not outweighs the benefits of the Proposed Transaction.

17
18 **Q. Mr. Woods seems to assert that regulated public utilities are more costly and,**
19 **therefore, DELCORA customers are better off without the Proposed Transaction.**
20 **Do you agree?**

21 A. No. As I have testified earlier, nationally, water and wastewater utilities throughout the
22 United States have earned a D in their infrastructure rating. Overall, this indicates that
23 the majority of municipally owned and municipal authority owned systems have not had

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1 proper repair and maintenance over the years. Aqua, on the other hand, has invested an
2 average of approximately \$250 - \$300 million per year in capital improvements to its
3 water and wastewater systems over the last 10 years. While the majority of those capital
4 improvements are on the water side of the business, as our wastewater business expands,
5 we expect to see similar investment throughout our wastewater systems. In providing the
6 necessary investments into Aqua's infrastructure, Aqua is ensuring that customers will
7 receive quality and reliable service in the years to come. Simply put, Aqua is and has
8 been addressing the infrastructure issues that have not been dealt with by municipal and
9 municipal authority systems.

10 While I would not categorize it as underinvested, the DELCORA system has had,
11 and continues to have, its own challenges relative to the large-scale capital project to
12 disconnect from PWD. It was DELCORA's team that chose to collaborate and work
13 with Aqua, and, as I mentioned previously, this collaborative process has already yielded
14 benefits to how they now approach long-term capital planning.

15
16 **Q. Please opine on Mr. Woods' Schedule HJW-1.**

17 A. Similar to Witness Faryniarz's arguments regarding the difference in the cost of capital,
18 Mr. Woods in Exhibit HJW-1 calculates a "Revenue Requirement" of the Company's
19 purchase price plus transaction costs relative to the existing debt service costs of
20 DELCORA on its existing assets. Again, a conclusion and analysis of this nature is not
21 surprising. The fact of differences in the cost of capital and financing between regulated
22 public utilities and municipal owned systems has never formed a basis to outright deny
23 any acquisition application. Having said that, comparing both types of financing is

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1 comparing an apple to an orange, because each type has different characteristics, benefits,
2 and preferences by different consumers. To flatly say one is better than the other is too
3 simplistic an argument. The facts are that Aqua has the ability to secure both equity and
4 debt capital at excellent rates. Aqua PA has an (A-) S&P rating and the Company's
5 shareholders will pay a premium to a share of Aqua (Essential) stock at approximately
6 1.25x earnings. This is, also, no surprise as the Company has a proven track record of
7 quality performance. If the Commission looked only at capital structure and the cost of
8 capital of a certain acquiring entity over the last century to test whether an acquisition
9 was in the public interest, it would likely be a very bright line standard. However, we
10 know that is not the case. The standard of review is not whether a municipal model is
11 better or worse than a regulated public utility model. The test is whether there are
12 substantial public benefits overall as part of the transaction.

13
14 **Q. Do you agree that the Proposed Transaction will cause DELCORA's current**
15 **revenue requirement to more than double?**

16 A. No. Mr. Woods' analysis is isolated to only the Revenue Requirement on the purchase
17 price of the Proposed Transaction. It is a narrow analysis and not reflective of the actual
18 and full revenue requirement as shown in Aqua's Appendix A, with only a 12.55%
19 increase in rates caused by the deficiency in operating income.

20
21 **Q. Mr. Woods states that the conditions of service in DELCORA's service area will not**
22 **change post acquisition in a material way that would justify the change in revenue**

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1 **requirement. Do you agree with Mr. Woods' assertion that there will not be service**
2 **improvements?**

3 A. Not at all. As I testified earlier, in my view, the professionals at DELCORA have already
4 benefited from the collaborative engagement between our operations, which translates to
5 improved service. One of the clear benefits of this relationship has been the sharing of
6 Aqua's expertise in managing, planning, and executing larger scale capital projects like
7 the expansion of the WRTP and diversion of flows from PWD.

8
9 **Q. On p. 23 of Mr. Woods' testimony, he opines on how Aqua would bill SPMT after**
10 **closing. Please describe this process.**

11 A. Aqua plans to continue to bill SPMT quarterly, on an estimated basis with a true-up to
12 actual consumption which will be included on the second quarter's bill following the end
13 of the year's billing. Mr. Woods opines that one of the benefits of the existing contract
14 with SPMT is the "true-up" of actual flows. My understanding is that the true up also
15 includes actual O&M expenses of DELCORA to the extent they are higher or lower.
16 Aqua will be billing SMPT based on actual flow, so nothing is lost there. However,
17 when it comes to cost, there will be no adjustment for any changes in operating costs of
18 Aqua because the rate is fixed and can only be changed in a base rate case. Hence costs
19 get captured in that process. In the end, the more meaningful impact of the true-up in
20 today's contract is captured in the Company's future tariff billing process. In other
21 words, under the DELCORA-SPMT contract, both costs and flows are variable. Under
22 Aqua, costs are fixed and flows will be actual. From a budgeting perspective, Aqua
23 billing will be less volatile than DELCORA's.

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1
2 **Q. On pgs. 24 - 28, Witness Woods introduces his analysis of Schedules HJW-2 through**
3 **HJW-4, which summarizes the revenue requirements of Schedule HJW-2 (Aqua**
4 **Revenue) and Schedule HJW-3 (DELCORA Revenue), shows his projections of the**
5 **annual revenues to be collected from Aqua and DELCORA, as well as the impact of**
6 **the Trust in HJW-5. To start, please provide an overview of Mr. Woods' analysis.**

7 A. My disagreement with Mr. Woods' analysis is fundamentally the same as the
8 disagreement I previously presented against Witness Faryniarz's similar analysis. For the
9 sake of not being overly repetitive, I summarize my observations of Mr. Wood's
10 schedules HJW-2 – HJW 4 as follows, and offer in rebuttal my own WCP-2R Schedule
11 A, which is a recalculation of the DELCORA and Aqua Revenue Requirement. WCP-2R
12 Schedule A provides a corrected projection of DELCORA's 20 year revenues as Witness
13 Pileggi will support. This schedule further demonstrates the impact of the Company's
14 ability to share costs with its larger customer base. I note again that I have not taken into
15 account other ways in which the Company can lower its cost of service, like tax repair, as
16 noted by OCA Witness Smith, and, thus, my approach is a conservative analysis of
17 revenue impacts. In fact, I expect the impacts will be better because of the
18 aforementioned ability of the Company to spread costs, operate efficiently, and reduce its
19 cost of service.
20

21 **Q. Please describe Mr. Woods' Schedules HJW-2 through HJW-4.**

22 A. Schedule HJW-2 is Mr. Woods' calculation of the Aqua Revenue Requirement, however,
23 it includes incorrect assumptions. While the fundamental calculations appear to be

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1 accurate, the flaw of this analysis is that it does not address or acknowledge that the cost
2 of service post 2028 would be allocated over a large wastewater customer base, thus
3 changing the result.

4 Schedule HJW-3 is Mr. Woods' calculation of the DELCORA "No Sale" revenue
5 requirement. I defer to Witness Pileggi to address and dispute the assumptions and
6 ultimate end result. However, in summary, the overall revenue requirement is
7 understated throughout the timeframe in the same manner as it was understated by
8 Witness Faryniarz, and this is a failure in both analyses. I note as well the significant
9 difference in end result (2040 revenue requirement) between both Witness Woods and
10 Witness Faryniarz.

11 Schedule HJW-4 is a comparison of the Aqua vs. DELCORA revenue
12 requirements, which is similar to Witness Faryniarz (Table 2). For the aforementioned
13 reasons stated above in my rebuttal testimony, this comparison is flawed and my WCP-
14 2R Schedule A presents a better and more realistic end result, which is an overall lower
15 revenue requirement under Aqua ownership.

16
17 **Q. Please address Mr. Woods' opinion on the proposed Trust concept and his Schedule**
18 **HJW-5.**

19 A. In Schedule HJW-5, Mr. Woods calculates what he believes are the ultimate dollars that
20 would be deposited into the Trust and, subsequently, used to provide customer assistance
21 payments. He shows the trust approximately lasting through 2027 and then shows the
22 differential in revenue requirement through the year 2040. Ultimately, he opines and
23 concludes that customers, including SPMT, will be subject to "rate shock", and have to

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1 absorb near 100% rate increases. I previously testified that this observation is not the
2 case when you consider the regulatory tools, not “sleight of hand” tricks that Mr. Woods
3 claims are at the Company’s disposal. Many jurisdictions similar to Pennsylvania
4 provide regulatory tools that support gradualism and rate mitigation through single tariff
5 pricing and other cost allocation methods to fairly discharge their duty to authorize
6 reasonable rates for utility service to customers.

7
8 **Q. On p. 31 of his direct testimony and on Schedule HJW-6, Mr. Woods appears to**
9 **assume a 0% increase to the billings to SPMT under Aqua’s ownership for the years**
10 **2020 to 2027. Please discuss.**

11 A. Mr. Woods does not account for the moderate rate increases that will occur during the
12 period the Trust is in place. I do not agree with his assumption that there will be no rate
13 increases under DELCORA ownership from 2028 to 2033, and similarly from 2034 to
14 2040. Moreover, I do not agree, as I stated before, that SPMT will be subject to a
15 100+% rate increase.

16
17 **Q. On p. 32, line 12, do you agree that under Aqua ownership SPMT would pay an**
18 **additional \$10.7 million on a present value basis?**

19 A. No. As I said earlier, I do not subscribe to the conclusion that rates for SPMT rates will
20 increase 100+%. As I show in WCP-2R Schedule A, Mr. Woods’ calculation of the
21 revenue requirement does not take into consideration even conservative regulatory
22 assumptions.

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1 **Q. Is there a contract that exists between DELCORA and SPMT as discussed by Mr.**
2 **Human and Mr. Woods?**

3 A. Yes. It is the position of the Company that the existing rates of SPMT will be
4 memorialized into the Company's authorized tariff at the PUC. The tariff, in
5 combination with certificated service territory approval, forms the legal basis for the new
6 owner, Aqua, to provide wastewater service to SPMT and charge for said services.
7 Having said that, the Company will likely be developing a wastewater rider to address
8 customers like SPMT that will allow for the development of a special rate, provided that
9 certain requirements are met.

11 **Q. On p. 34 of his direct testimony, Mr. Woods states that future SPMT charges would**
12 **be lower under DELCORA ownership. Do you agree with Mr. Woods?**

13 A. No. Over the long term and making reasonable and conservative assumptions, my
14 analysis in Schedule A demonstrates that the opposite is true.

16 **Q. On p. 35 line 5, Mr. Woods performs an analysis that purports to show the**
17 **estimated impact on SPMT if the Trust is not utilized. Do you agree with this**
18 **analysis?**

19 A. No. As I have pointed out, Mr. Woods' assumptions are flawed and his analysis does not
20 accurately demonstrate the realities of ratemaking in Pennsylvania.

22 **Q. Mr. Woods takes particular interest in three entities he does not represent. How do**
23 **you respond to the concerns he raises on their behalf?**

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1 A. Mr. Woods poses theoretical issues that are not being litigated in this proceeding.
2 Whether hypothetically there is some amount that could be excluded from the UVEs
3 analysis under some future scenario does not impact the current purchase price of
4 \$276,500,000.

5
6 **Q. Do you agree that there are benefits in having an average investment per customer
7 that is lower than Aqua's existing average investment per customer?**

8 A. Yes, I do. I respectfully submit that Mr. Woods misses the point in his rate base
9 differential. As I discussed in my direct testimony, the Company's acquisition of
10 DELCORA customers at less rate base per customer than its existing systems confirms
11 there are economies of scale that will be realized from the Proposed Transaction. When
12 combined with the fact that DELCORA's rates are less than the Company's current rates,
13 immediate economies of scale are demonstrated as a result of the Proposed Transaction.

14
15 **Q. Mr. Packer, please summarize your conclusions about both Witness Faryniarz's and
16 Witness Woods' testimony and your Rebuttal Analysis:**

17 A. I observe and conclude the following regarding both their testimonies:
18 1.) Both analyses under-projected the long-term revenue requirement expectations of
19 DELCORA, thereby misstating the differences in revenue requirement when compared to
20 Aqua. Revenue requirements under Aqua ownership should be substantially lower than
21 under DELCORA ownership.
22 2.) Both analyses do not include any recognition of the Company's ability to utilize
23 single tariff pricing and share costs among wastewater customers over time; thus, they

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1 misstate the differences in revenue requirement when compared to Aqua's ownership of
2 the DELCORA system.

3 3.) My analysis demonstrates that, with even a small amount of cost allocation ability
4 assumed among wastewater customers, there are benefits long term under Aqua
5 ownership. Moreover, my analysis is conservative since it does not include any further
6 reductions to Aqua's cost of service for operating efficiencies and income tax expense.
7 For the aforementioned reasons, the analyses offered by both witnesses should be
8 rejected.

9
10 **X. RESPONSE TO KIMBERLY CLARK WITNESS BROOKS**

11 **Q. Please summarize the issues raised in the direct testimony of Kimberly Clark**
12 **witness Brooks.**

13 A. Mr. Brooks asks the Commission to deny the Application on the grounds that the
14 Proposed Transaction has no proven benefits to the public or DELCORA's current
15 customers. Should the Commission approve the Application, Mr. Brooks asks the
16 Commission to impose several conditions:

- 17 ▪ Aqua should be required to ensure the Customer Trust Fund will be
18 established at the full projected dollar value and operated under
19 Commission oversight;
- 20
21 ▪ To the extent that its future rates provide for recovery of capital costs,
22 Aqua should acknowledge that, as a general principle, customers such as
23 Kimberly Clark should only be required to pay for the portion of assets
24 and infrastructure used to serve them;
- 25
26 ▪ Aqua should be required to treat interest payments by industrial customers
27 such as Kimberly Clark as if they were contributions in aid of construction
28 or the Commission should develop another mechanism that gives
29 Kimberly Clark credit or recognition for financial contributions made to
30 DELCORA since 1973; and

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- 1
2 ▪ In the alternative, Kimberly Clark wants Aqua to establish contract rates
3 or contract riders.
4

5 **Q. Do you agree with Mr. Brook's recommendations?**

6 A. No. First, in regard to the Trust, DELCORA has made it clear that the Proposed
7 Transaction creates an irrevocable trust fund that will contain the majority of the
8 Proposed Transaction sale proceeds. Through the operation of the Trust, the effect of the
9 Trust payments will provide a 3% increase per year during the life of the Trust. The Trust
10 will have one independent, institutional trustee and will automatically terminate when all
11 money has been distributed for DELCORA customer bills and related expenses. The
12 Trust itself is not jurisdictional to the Commission and it would be inappropriate for the
13 Commission to have oversight of it. There is no need for Commission oversight.
14 Independent oversight will be provided by the independent, institutional trustee.

15 Second, Aqua cannot acknowledge or provide assurance that customers such as
16 Kimberly Clark will only be required to pay for the portion of assets and infrastructure
17 used to serve them. Cost of service and revenue allocation will be decided by the
18 Commission in Aqua rate cases going forward.

19 Third, it would be inappropriate to treat Kimberly Clark's past interest payments
20 as contributions in aid of construction because Section 1329 is a valuation process of
21 tangible assets regardless of their funding source.

22 Fourth, as to the proposed alternative of contract rates or contract riders as part of
23 Aqua's future tariff, it is my understanding from a discovery response of DELCORA that
24 there is, presently, no contract between Kimberly Clark and DELCORA. The contract
25 between DELCORA and Kimberly Clark expired in December 2004.

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Q. Mr. Brooks also comments that DELCORA is a solvent entity. Is solvency a consideration in the approval process?

No. While I am not an attorney, solvency, in my experience, is not a consideration in the Commission approval process under Section 1329 of the Public Utility Code.

Q. Is the service agreement between Scott Paper Company (i.e., Kimberly Clark’s predecessor) and DELCORA presently in effect?

A. No. While Kimberly-Clark witness Thomas Brooks expresses some confusion about whether the 1973 Service Agreement (“KC Service Agreement”) is in effect (Kimberly-Clark Statement No. 1, p. 4, lines 1-11), no confusion exists from Aqua’s and DELCORA’s perspective. In a letter dated November 19, 2003 from DELCORA Executive Director Joseph L. Salvucci to Kimberly-Clark Plant Manager Paul R. Wittekind, DELCORA provided notice to Kimberly-Clark of its intention to terminate the KC Service Agreement in accordance with Section 10 of that agreement, effective December 10, 2004. The November 19, 2003 letter is attached as WCP-2R Schedule F – November 19, 2003 Letter from DELCORA to Kimberly-Clark. That letter expressly requested the parties to commence discussions about how to address their future relationship.

Q. Given the current status of the KC Service Agreement, does Aqua intend to assume that contract as part of the Proposed Transaction?

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1 A. No. Because the KC Service Agreement was terminated in accordance with the contract's
2 requirements, effective December 10, 2004, there is no contract for Aqua to assume and
3 no obligations under that agreement for Aqua to perform.

4
5 **Q. To your knowledge, did DELCORA and Kimberly-Clark ever establish new terms**
6 **and conditions governing wastewater treatment service after the KC Service**
7 **Agreement was no longer effective as of December 10, 2004?**

8 A. Yes. DELCORA and Kimberly-Clark agreed that DELCORA's pretreatment program's
9 Rules and Regulations would determine the terms of their relationship, thereby obviating
10 the need for a new agreement. This new arrangement was addressed and confirmed by
11 DELCORA witness John Pileggi in response to Kimberly-Clark Interrogatory KCC-I-1.
12 That response is attached as WCP-2R Schedule G.

13
14 **Q. What are DELCORA's Industrial Pretreatment Program's ("IPP") rules and**
15 **regulations?**

16 A. DELCORA has an established Industrial Pretreatment Program ("IPP") in accordance
17 with the Clean Water Act. The primary objectives of the IPP are:

- 18 • To prevent the introduction of pollutants into Publicly Owned Treatment Works
19 ("POTW"), which will interfere with the operation of a POTW, including
20 interference with its use or disposal of municipal sludge.
- 21 • To prevent the introduction of pollutants into POTWs, which will pass through
22 the treatment works or otherwise be incompatible with such works.

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- 1 • To improve opportunities to recycle and reclaim municipal and industrial
2 wastewaters and sludges.

3 DELCORA has issued two primary documents that govern the IPP. One describes
4 the local limitations and substance restrictions for discharge to DELCORA facilities
5 under the IPP. The second, entitled “DELCORA Standards, Rules and Regulations of
6 2011,” details standards, rules and regulations governing the proper disposition of all
7 wastewaters introduced into the DELCORA wastewater management system, including
8 the acceptance and connection to DELCORA facilities; establishing the procedures,
9 enforcement mechanisms and fee system to administer the regulations; and related
10 matters.

11
12 **Q. What is your response to Kimberly-Clark Witness Brooks’ uncertainty (Kimberly-**
13 **Clark Statement No. 1, p. 4, line 5) about “which rules or regulations DELCORA is**
14 **referencing” when indicating that the DELCORA-Kimberly-Clark relationship post**
15 **termination of the KC Service Agreement is determined by DELCORA’s IPP rules**
16 **and regulations?**

17 A. Given the detailed and comprehensive information available on DELCORA’s website
18 about the IPP and the two documents described above, it is difficult to discern the source
19 of Mr. Brooks’ confusion regarding Kimberly-Clark’s obligations and wastewater
20 treatment services under DELCORA’s IPP. Given the scope and breadth of the IPP and
21 the documents defining the obligations under that program, it does not surprise me that
22 DELOCRA and Kimberly Clark agreed to allow the IPP Rules and Regulations to govern
23 their relationship after the KC Service Agreement was terminated in 2004.

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1
2 **Q. What is your response to Kimberly-Clark witness Brooks' claim that DELCORA**
3 **and Kimberly-Clark have acted as if KC Service Agreement was still in effect**
4 **(Kimberly-Clark Statement No. 1, page 4, lines 14-15)?**

5 A. Although Mr. Brooks at one point makes it clear that Kimberly-Clark is not asking the
6 Commission to resolve any contract issues regarding the KC Service Agreement
7 (Kimberly-Clark Statement No. 1, page 4, lines 14-15), he goes on to offer examples of
8 actions suggesting, in his view, that the KC Service Agreement is still in effect, in order
9 to later argue that Kimberly-Clark made substantial contributions to DELCORA and is
10 entitled under the KC Service Agreement to pay only for the assets and infrastructure it
11 actually uses. (Kimberly-Clark Statement No., 1, page 8, lines 8-9). The fact that
12 DELCORA's quarterly invoices to Kimberly-Clark state the charges are "per agreement
13 dated December 18, 1973" and a PowerPoint presentation made references to changes to
14 Kimberly-Clark's "Service Agreement" (Kimberly Clark -Statement No., 1, page 4, lines
15 14-23) do not, in my view, suggest that the otherwise clearly terminated KC Service
16 Agreement has been reinstated or is otherwise presently in effect. Rather, these references
17 to the old KC Service Agreement or to a Service Agreement in the PowerPoint appear to
18 be nothing more than short-hand descriptions of the existing service arrangement
19 between DELCORA and Kimberly-Clark which, as noted above, has been determined by
20 DELCORA's IPP Rules and Regulations since late 2004.

21
22 **Q. Are any of the KC Service Agreement provisions cited by Kimberly-Clark Witness**
23 **Brooks in Kimberly-Clark Statement No. 1, page 6, lines 3-36 in effect and**

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1 **applicable to either DELCORA or Aqua as the potential purchaser of the**
2 **DELCORA system?**

3 A. No. Although I am not a lawyer and am not offering a legal opinion, I can say that given
4 the termination of the KC Service Agreement in 2004 as I discussed above, it follows that
5 the provisions of the long-terminated contract addressing (i) that Kimberly-Clark will not
6 be responsible for costs unrelated to its own wastewater, (ii) that DELCORA will use all
7 available grants and subsidies, (iii) that Kimberly-Clark will not be responsible for
8 applying for permits and (iv) that Kimberly Clark's wastewater would not require a
9 surcharge, are no longer in effect. Those provisions were in effect and operated for the
10 benefit of both DELCORA and Kimberly-Clark and its predecessor for thirty-one (31)
11 years, but it is clear that these terms were not intended and did not extend beyond
12 December 2004, when the KC Service Agreement was terminated in accordance with its
13 terms. I note that each year DELCORA passes resolutions with final rates to be charged
14 to its customers. Finally, I note that in the future Kimberly Clark may be eligible for a
15 rate set under a future rider in Aqua's tariff.

16
17 **XI. RESPONSE TO TESTIMONY OF MUNICIPAL WITNESSES**

18 **Q. Please summarize the issues raised in the testimony of the Municipal Protestants'**
19 **witnesses as it relates to your rebuttal testimony.**

20 A. Municipal Protestants witnesses Reiner (Edgmont Township), Possenti (Lower
21 Chichester Township), Nelson (Southwest Delaware County Municipal Authority) and.
22 Ciach (Upland Borough) express concern with rate setting under Aqua ownership. They
23 testify that, with PUC ratemaking, it is possible that Aqua would attempt to have rates set

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1 that combine costs across all of DELCORA or even across all of Aqua's Pennsylvania
2 holdings. They also are concerned 1) with the possibility of being charged for costs
3 related to treating wastewater by the PWD or of being charged the costs of bypassing
4 PWD and expanding DELCORA's Chester treatment plant and 2) with not getting credit
5 for value of property contributed by them to DELCORA.

6
7 **Q. Several of the municipal and industrial Protestants in this proceeding, including**
8 **Edgmont Township (Edgmont Statement 1, p. 5, lines 12-14); Lower Chichester**
9 **Township (Lower Chichester Statement 1, p. 4, lines 6-7); Southwest Delaware**
10 **County Municipal Authority (SWDCMA Statement 1, p. 5, lines 16-17); Upland**
11 **Borough (Upland Statement 1, p. 3, lines 7-11) have claimed that their service**
12 **contracts with DELCORA may not be assigned without their consent and**
13 **DELCORA may not unilaterally assign such agreements without the counterparty's**
14 **consent. Do you agree with this assessment?**

15 **A.** Yes. Aqua agrees that these identified contracts require the consents of the various
16 municipalities before the agreements can be assigned to Aqua and that these parties have
17 not consented to such assignments thus far. While we expect to work with the Municipal
18 and Industrial Protestants to see if mutually acceptable contract assignments can be
19 effected, as noted later in this testimony, there are other ways to ensure that service
20 continues to these parties, notwithstanding their present unwillingness to consent to the
21 assignment of their contracts to Aqua.

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1 **Q. In your experience in the acquisition proceedings when does the buyer typically**
2 **receive consent for assignment of contracts?**

3 A. Typically, assigned contracts are assigned and consent is received after PUC approval of
4 the transaction and at or around Closing.

5
6 **Q. Several of the municipal and industrial Protestants in this proceeding, including**
7 **Edgmont Township (Edgmont Statement 1, p. 4, lines 2-6, 8; p. 7, lines 18-20);**
8 **Lower Chichester Township (Lower Chichester Statement 1, p. 3, line 22; p. 4, lines**
9 **1-2; p. 6, lines 13-14); Southwest Delaware County Municipal Authority (SWDCMA**
10 **Statement 1, p. 4, lines 5-9; p.5, lines 11-13); Upland Borough (Upland Statement 1,**
11 **p. 4, lines 3-4 and lines 11-12); and Sunoco Partners Marketing & Terminals, L.P.**
12 **(SPMT statement no. 1, pp. 11-12) have claimed that that they have contributed**
13 **specific property and assets to DELCORA, procured and turned over grants to**
14 **DELCORA and their contract with DELCORA requires that their rates for**
15 **DELCORA service be based on that party's specific attributes and costs of service.**
16 **How does Aqua intend to address these issues and concerns in the short and long**
17 **term?**

18 A. Aqua and DELCORA have been meeting with representatives from DELCORA
19 customers to address the assignment of service agreements and their concerns about the
20 terms, conditions, rates and other issues that each party believes represent their
21 specifically negotiated contract rights. In many instances, agreements have been reached,
22 allowing these service contracts to be assigned to Aqua as anticipated under the APA. To
23 the extent assignments cannot be achieved because of the unwillingness of these specific

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1 Municipal and Industrial Protestants for any of the reasons asserted, Aqua intends to
2 continue, over the short-term, to provide service to these customers as the agent and/or
3 subcontractor of DELCORA at the rates established in the service agreements. This
4 structure and approach is specified in the APA.

5 Section 2.06 the APA provides that if, at closing of the proposed transaction, there
6 is no mutual agreement to assign the service agreements requiring mutual consent (i.e.,
7 “Nonassignable Assets”), then after closing DELCORA will continue to be the legal
8 owner of the Nonassignable Assets, but Aqua will become the economic/beneficial owner
9 of the Nonassignable Assets and provide service to these customers as the
10 agent/subcontractor of DELCORA. Aqua has not found and the Municipal and Industrial
11 Protestants have not shown us any prohibition of this arrangement in any of the service
12 agreements that are considered Nonassignable Assets. Under this proposed arrangement,
13 DELCORA, as legal owner and counterparty under the service agreements, will still be
14 ultimately responsible for providing service and fulfilling its obligations under the
15 applicable service agreement, with Aqua acting as DELCORA’s agent and/or
16 subcontractor.

17 During the implementation of service as DELCORA’s agent/subcontractor, Aqua
18 will continue to maintain open lines of communication with the Municipal and Industrial
19 Protestants to see if any mutually satisfactory assignments of the applicable service
20 agreements can be effected.

21 Over the longer term and particularly in its first base rate proceeding after the
22 proposed transaction closes, Aqua will continue to assess the agent/subcontractor
23 arrangement and may make specific proposals and/or seek relief from the Commission as

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1 conditions and circumstances warrant. The ultimate long-term objective is for all former
2 DELCORA customers to be served by Aqua under cost-of-service rates based on
3 traditional cost-of- service principles and accepted ratemaking methodologies applicable
4 to Aqua system-wide.

5
6 **Q. Some of the municipal and industrial Protestants claim to have rights to (i)**
7 **reacquire DELCORA assets presently serving them or (ii) a form of reversionary**
8 **right in those assets to themselves or a third party if DELCORA sells or transfers**
9 **such assets. How does Aqua plan to address these contractual rights?**

10 **A.** We understand that Edgmont Township has a right of first refusal in its service contract
11 and Trainer and Upland Boroughs have a reversionary interest in certain DELCORA
12 assets providing service to them.

13 Specifically, Edgmont Township as a right of first refusal to purchase certain
14 DELCORA assets serving it if DELCORA sells the facilities. Trainer and Upland
15 Borough has a reversionary interest in the system serving them if DELCORA fails to
16 operate the system, unless the boroughs decline to take ownership in which case the
17 systems revert to the County of Delaware or any other agency.

18 If those rights are properly exercised under the applicable Service Agreement, the
19 systems will be transferred to them. If the pending Application and APA are approved as
20 requested in this proceeding and if either of these municipalities desire service from Aqua
21 in the future, they will be required to apply for service as a new customer and will be
22 served in accordance with Aqua's prevailing tariff rates and conditions applicable to them
23 and their requested service.

AQUA PENNSYLVANIA WASTEWATER, INC.
REBUTTAL TESTIMONY OF WILLIAM C. PACKER

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Q. If Edgmont Township and Trainer and Upland Boroughs exercise their rights of first refusal/reversion, will they be able to utilize any of the funding expected to be available under the Trust?

A. No. Since by definition these municipalities would have elected to proceed outside of the Proposed Transaction, they would not be eligible to receive any Trust funds to cover future Aqua rate increases.

Q. Please discuss the Municipal Protestants concern with the PUC ratemaking process, and whether it is possible that they would be charged for certain PWD costs or operational costs of the system as a whole?

A. While we acknowledge their concerns, the regulatory model provides overall benefits because it mitigates risk and through ratemaking principles previously discussed, like single tariff pricing and consolidated ratemaking, will benefit end user customers over the long-term. While it would be inappropriate to treat the Municipal Protestants' past interest payments as contributions in aid of construction because Section 1329 is a valuation process of tangible assets regardless of their funding source, going forward they will have the benefit of a larger customer base in the event that any of those contributed assets fail or require replacement.

XII. CONCLUSION

Q. Does this conclude your rebuttal testimony?

AQUA PENNSYLVANIA WASTEWATER, INC.
REBUTTAL TESTIMONY OF WILLIAM C. PACKER

1 Yes, it does; however, I reserve the right to supplement my rebuttal testimony as
2 additional issues and facts arise during the course of this proceeding.

3

Packer Rebuttal - WCP-2R Schedule A

(A.)	(A.1)	(B.)	(C.)	(D.)	(E.)	(F.)	
DELCORA vs. Aqua with Trust Payments							
Year	Faryniarz Table 4 - DELCORA No Sale	SPMT - Woods - HJW-4 DELCORA no sale *^	DELCORA no sale *^	Aqua / Trust Payments ^^	Aqua w/ Trust Payments (10% Cost Spread) ^^	Difference Col. (B.) vs (C.)	Difference Col. (B.) vs (D.)
2020	\$70,978,127	\$70,978,127	\$70,978,127	\$70,978,127	\$70,978,127	\$0	\$0
2021	\$67,754,039	\$74,527,033	\$74,997,375	\$73,107,471	\$73,107,471	\$1,889,904	\$1,889,904
2022**	\$68,973,113	\$78,253,385	\$80,495,980	\$75,300,695	\$75,300,695	\$5,195,285	\$5,195,285
2023	\$75,328,305	\$82,166,054	\$87,181,320	\$77,559,716	\$77,559,716	\$9,621,605	\$9,621,605
2024	\$83,788,448	\$86,274,357	\$94,245,102	\$79,886,507	\$79,886,507	\$14,358,594	\$14,358,594
2025**	\$87,837,306	\$90,588,075	\$106,710,726	\$82,283,102	\$82,283,102	\$24,427,623	\$24,427,623
2026	\$89,407,570	\$95,117,479	\$115,808,624	\$84,751,596	\$84,751,596	\$31,057,028	\$31,057,028
2027	\$101,931,332	\$99,873,353	\$125,682,186	\$87,294,143	\$87,294,143	\$38,388,043	\$38,388,043
2028**	\$101,939,204	\$105,865,754	\$136,397,545	\$124,632,143	\$112,168,929	\$11,765,401	\$24,228,616
2029	\$113,460,959	\$105,865,754	\$139,125,496	\$149,533,281	\$134,579,952	(\$10,407,785)	\$4,545,543
2030	\$115,724,467	\$105,865,754	\$141,908,006	\$153,180,434	\$137,862,390	(\$11,272,428)	\$4,045,615
2031**	\$117,897,846	\$105,865,754	\$144,746,166	\$147,016,127	\$132,314,515	(\$2,269,962)	\$12,431,651
2032	\$120,620,368	\$105,865,754	\$147,641,089	\$150,691,531	\$135,622,377	(\$3,050,441)	\$12,018,712
2033	\$124,141,994	\$105,865,754	\$150,593,911	\$154,366,934	\$138,930,240	(\$3,773,023)	\$11,663,671
2034**	\$128,374,653	\$111,159,041	\$153,605,789	\$156,219,127	\$140,597,215	(\$2,613,338)	\$13,008,575
2035	\$131,725,551	\$111,159,041	\$156,677,905	\$160,124,606	\$144,112,145	(\$3,446,701)	\$12,565,760
2036	\$135,994,218	\$111,159,041	\$159,811,463	\$164,030,084	\$147,627,075	(\$4,218,621)	\$12,184,388
2037**	\$138,364,117	\$111,159,041	\$163,007,692	\$160,807,127	\$144,726,415	\$2,200,565	\$18,281,278
2038	\$138,644,590	\$111,159,041	\$166,267,846	\$164,827,306	\$148,344,575	\$1,440,541	\$17,923,271
2039	\$141,176,194	\$111,159,041	\$169,593,203	\$168,847,484	\$151,962,735	\$745,719	\$17,630,468
2040**	\$143,705,172	\$111,159,041	\$172,985,067	\$161,656,127	\$145,490,515	\$11,328,940	\$27,494,552
Total	\$2,297,767,573	\$2,091,085,674	\$2,758,460,617	\$2,647,093,667	\$2,445,500,436	\$111,366,950	\$312,960,181
PVRR^^^	\$1,039,447,532	\$990,743,427	\$1,239,009,481	\$1,166,503,753	\$1,095,787,772	\$72,505,728	\$143,221,709

* = 2021 - 2025 DELCORA Projected increases in rates utilized from OCA - III - 11; 2026 - 2028 Projected at 8.53% per year

** = Indicates Aqua Base Rate Case Year

^ = 2029 through 2040 Projected increases capped at 2.0%

^^ = DSIC Included between rate cases (Every 3 years 2029 - 2040) up to 5%

^^^ = Net present value of cash flows at 7.37% discount rate

Aqua Pennsylvania Wastewater, Inc.
DELCORA Wastewater Regional Authority

1.)	DELCORA Wastewater Regional Authority	2021 Year 1	2022 Year 2	2023 Year 3	2024 Year 4	2025 Year 5	2026 Year 6	2027 Year 7	2028 Year 8	2029 Year 9	2030 Year 10	2031 Year 11	2032 Year 12	2033 Year 13	2034 Year 14	2035 Year 15	2036 Year 16	2037 Year 17	2038 Year 18	2039 Year 19	2040 Year 20	Notes
	Revenue	\$ 70,978,127	\$ 79,887,127	\$ 90,480,127	\$ 92,996,127	\$ 95,952,127	\$ 102,137,127	\$ 104,518,127	\$ 108,548,127	\$ 145,886,127	\$ 145,982,127	\$ 146,050,127	\$ 147,016,127	\$ 149,303,127	\$ 152,707,127	\$ 156,219,127	\$ 159,492,127	\$ 160,019,127	\$ 160,807,127	\$ 161,125,127	\$ 161,424,127	
	OGM	41,908,283	50,080,641	50,712,454	51,340,703	54,547,598	55,210,502	55,686,864	35,173,928	35,877,406	36,594,954	37,323,507	38,066,631	38,824,618	39,597,764	40,386,373	41,190,754	42,011,223	42,848,101	43,701,717	44,572,405	
	Depreciation	8,247,122	8,618,480	9,040,257	9,552,154	10,201,393	10,580,523	11,321,981	24,344,166	24,224,508	24,071,498	24,116,165	24,452,167	25,034,876	25,638,529	26,185,559	26,116,524	26,100,254	25,975,444	25,842,129	25,689,777	***2.72% Composite Depreciation Rate
	Taxes Other	1,585,974	2,231,103	2,411,930	2,470,865	2,536,879	2,652,211	2,710,377	2,793,955	3,382,330	3,407,251	3,432,216	3,471,258	3,530,791	3,607,735	3,686,822	3,762,809	3,797,745	3,837,172	3,870,032	3,903,165	
	Income Taxes	\$ 3,807,817	\$ 3,614,978	\$ 6,231,433	\$ 6,499,773	\$ 6,082,125	\$ 7,453,257	\$ 7,554,798	\$ 8,106,477	\$ 18,564,199	\$ 18,474,624	\$ 18,253,957	\$ 18,137,441	\$ 18,267,915	\$ 18,701,214	\$ 19,185,225	\$ 19,915,549	\$ 19,828,855	\$ 19,866,350	\$ 19,765,371	\$ 19,671,499	*****21% Federal & 9.99% State
	Operating Income	\$ 15,528,932	\$ 15,331,925	\$ 22,084,053	\$ 23,126,632	\$ 22,584,131	\$ 26,240,634	\$ 27,044,317	\$ 38,129,602	\$ 63,817,683	\$ 63,433,800	\$ 62,924,281	\$ 62,888,630	\$ 63,644,928	\$ 65,161,886	\$ 66,771,148	\$ 68,506,492	\$ 68,281,051	\$ 68,280,060	\$ 67,941,879	\$ 67,587,282	
	Rate Base at Fair Market Value	\$ 276,500,000	\$ 294,955,878	\$ 308,237,399	\$ 323,322,141	\$ 341,629,987	\$ 364,849,825	\$ 378,409,301	\$ 404,927,320	\$ 870,661,924	\$ 866,382,421	\$ 860,910,056	\$ 862,507,551	\$ 874,524,573	\$ 895,364,977	\$ 916,954,442	\$ 936,518,820	\$ 934,049,799	\$ 933,467,913	\$ 929,004,128	\$ 924,236,139	
	Capital Investments (Year 1)	\$ 26,703,000	\$ 21,900,000	\$ 24,125,000	\$ 27,860,000	\$ 33,421,231	\$ 24,140,000	\$ 37,840,000	\$ 490,078,769	\$ 19,945,006	\$ 18,599,133	\$ 25,713,661	\$ 36,469,189	\$ 45,875,280	\$ 47,227,995	\$ 45,749,936	\$ 23,647,504	\$ 25,518,368	\$ 21,511,659	\$ 21,074,140	\$ 20,240,969	
	Rate Base (Including Capital Investments less depreciation year 1)	\$ 294,955,878	\$ 308,237,399	\$ 323,322,141	\$ 341,629,987	\$ 364,849,825	\$ 378,409,301	\$ 404,927,320	\$ 870,661,924	\$ 866,382,421	\$ 860,910,056	\$ 862,507,551	\$ 874,524,573	\$ 895,364,977	\$ 916,954,442	\$ 936,518,820	\$ 934,049,799	\$ 933,467,913	\$ 929,004,128	\$ 924,236,139	\$ 918,787,331	
	Interest Expense ^	6,160,876	6,438,293	6,753,375	7,135,779	7,620,782	7,904,005	8,457,899	18,185,907	18,096,519	17,982,216	18,015,583	18,266,588	18,701,891	19,152,840	19,561,490	19,509,918	19,497,764	19,404,527	19,304,936	19,191,124	
	Required Operating Income (Rate Base x Rate of Return)	\$ 21,749,294	\$ 22,728,640	\$ 23,840,950	\$ 25,190,924	\$ 26,903,096	\$ 27,902,937	\$ 29,858,308	\$ 64,200,390	\$ 63,884,830	\$ 63,481,312	\$ 63,599,107	\$ 64,485,212	\$ 66,021,930	\$ 67,613,882	\$ 69,056,510	\$ 68,874,450	\$ 68,831,544	\$ 68,502,395	\$ 68,150,816	\$ 67,749,035	
	Operating Income Deficiency	\$ 6,220,362	\$ 7,396,715	\$ 1,756,897	\$ 2,064,292	\$ 4,318,964	\$ 1,662,303	\$ 2,813,991	\$ 26,070,788	\$ 67,147	\$ 47,512	\$ 674,826	\$ 1,596,582	\$ 2,377,002	\$ 2,451,996	\$ 2,285,361	\$ 367,959	\$ 550,493	\$ 222,335	\$ 208,937	\$ 161,753	
	Gross Revenue Conversion Factor	1.432171	1.432171	1.432171	1.432171	1.432171	1.432171	1.432171	1.432171	1.432171	1.432171	1.432171	1.432171	1.432171	1.432171	1.432171	1.432171	1.432171	1.432171	1.432171	1.432171	
	Revenue Deficiency (Excess) \$	\$ 8,909,000	\$ 10,593,000	\$ 2,516,000	\$ 2,956,000	\$ 6,185,000	\$ 2,381,000	\$ 4,030,000	\$ 37,338,000	\$ 96,000	\$ 68,000	\$ 966,000	\$ 2,287,000	\$ 3,404,000	\$ 3,512,000	\$ 3,273,000	\$ 527,000	\$ 788,000	\$ 318,000	\$ 299,000	\$ 232,000	
	Revenue Deficiency (Excess) %	12.55%	13.26%	2.78%	3.18%	6.45%	2.33%	3.86%	34.40%	0.07%	0.05%	0.66%	1.56%	2.28%	2.30%	2.10%	0.33%	0.49%	0.20%	0.19%	0.14%	
	Increase applied to Acquired (Authority) customers 100% Increase %	\$ 8,909,000	\$ 10,593,000	\$ 2,516,000	\$ 2,956,000	\$ 6,185,000	\$ 2,381,000	\$ 4,030,000	\$ 37,338,000	\$ 96,000	\$ 68,000	\$ 966,000	\$ 2,287,000	\$ 3,404,000	\$ 3,512,000	\$ 3,273,000	\$ 527,000	\$ 788,000	\$ 318,000	\$ 299,000	\$ 232,000	
	Increase applied to Acquired (Authority) customers 50% Increase %	\$ 4,454,500	\$ 5,296,500	\$ 1,258,000	\$ 1,478,000	\$ 3,092,500	\$ 1,190,500	\$ 2,015,000	\$ 18,669,000	\$ 48,000	\$ 34,000	\$ 483,000	\$ 1,143,500	\$ 1,702,000	\$ 1,756,000	\$ 1,636,500	\$ 263,500	\$ 394,000	\$ 159,000	\$ 149,500	\$ 116,000	
	Increase applied to Existing (Company Wastewater) customers 50% Increase %	\$ 4,454,500	\$ 5,296,500	\$ 1,258,000	\$ 1,478,000	\$ 3,092,500	\$ 1,190,500	\$ 2,015,000	\$ 18,669,000	\$ 48,000	\$ 34,000	\$ 483,000	\$ 1,143,500	\$ 1,702,000	\$ 1,756,000	\$ 1,636,500	\$ 263,500	\$ 394,000	\$ 159,000	\$ 149,500	\$ 116,000	
	Increase applied to Existing (Company Water) customers (Act 11) Increase %	\$ 19,971,782	\$ 22,728,640	\$ 23,840,950	\$ 25,190,924	\$ 26,903,096	\$ 27,902,937	\$ 29,858,308	\$ 64,200,390	\$ 63,884,830	\$ 63,481,312	\$ 63,599,107	\$ 64,485,212	\$ 66,021,930	\$ 67,613,882	\$ 69,056,510	\$ 68,874,450	\$ 68,831,544	\$ 68,502,395	\$ 68,150,816	\$ 67,749,035	

	Avg. Usage / Kgal	Estimated Monthly Increase	Estimated Percentage Increase
Impact Existing Customers (DELCORA) - Western Retail - Residential/Commercial 100%	6.81	\$ 4.92	12.55%
Impact Existing Customers (DELCORA) - Western Retail - Residential/Commercial (Marcus Hook) 100%	3.91	\$ 4.30	12.55%
Impact Existing Customers (DELCORA) - Western Retail - Residential/Commercial (Minimum Accounts) 100%	1.56	\$ 1.13	12.55%
Impact Existing Customers (DELCORA) - Western Retail - Residential/Commercial (Minimum Accounts Marcus Hook) 100%	1.40	\$ 1.54	12.55%
Impact Existing Customers (DELCORA) - Western Retail Industrial 100%	735.87	\$ 640.09	12.55%
Impact Existing Customers (DELCORA) - Western Wholesale 100%	16,724.31	\$ 6,024.69	12.55%
Impact Existing Customers (DELCORA) - EDU Wholesale 100%	26,779.25	\$ 9,714.06	12.55%
Impact Existing Customers (DELCORA) - Western Wholesale Industrial 100%	40,014.58	\$ 15,597.85	12.55%
Impact Existing Customers (DELCORA) - Western Chester Ridley Creek 100%	65,395.83	\$ 28,729.13	12.55%
Impact Existing Customers (DELCORA) - Western Chester Ridley Creek 50%	362,465.28	\$ 123,293.48	12.55%
Impact Existing Customers (DELCORA) - Eastern Other (Rose Valley Pump Station) 100%	N/A	\$ 10.17	12.55%
Impact Existing Customers (DELCORA) - Eastern Other (Pocopson - Riverside) 100%	N/A	\$ 9.94	12.55%
Impact Existing Customers (DELCORA) - Eastern Other (Pocopson - Preserve) 100%	N/A	\$ 14.64	12.55%
Impact Existing Customers (DELCORA) - Eastern Other (Edgemont - Residential) 100%	4.08	\$ 13.34	12.55%
Impact Existing Customers (DELCORA) - Eastern Other (Edgemont - Commercial) 100%	29.49	\$ 48.67	12.55%
Impact Existing Customers (DELCORA) - Other (Spring Hill Farms) 100%	N/A	\$ 8.72	12.55%
Impact Existing Customers (DELCORA) - Western Retail - Residential/Commercial 50%	6.81	\$ 2.46	6.28%
Impact Existing Customers (DELCORA) - Western Retail - Residential/Commercial (Marcus Hook) 50%	3.91	\$ 2.15	6.28%
Impact Existing Customers (DELCORA) - Western Retail - Residential/Commercial (Minimum Accounts) 50%	1.56	\$ 0.56	6.28%
Impact Existing Customers (DELCORA) - Western Retail - Residential/Commercial (Minimum Accounts Marcus Hook) 50%	1.40	\$ 0.77	6.28%
Impact Existing Customers (DELCORA) - Western Retail Industrial 50%	735.87	\$ 320.04	6.28%
Impact Existing Customers (DELCORA) - Western Wholesale 50%	16,724.31	\$ 3,012.34	6.28%
Impact Existing Customers (DELCORA) - EDU Wholesale 50%	26,779.25	\$ 4,857.03	6.28%
Impact Existing Customers (DELCORA) - Western Wholesale Industrial 50%	40,014.58	\$ 7,985.83	6.28%
Impact Existing Customers (DELCORA) - Western Chester Ridley Creek 50%	65,395.83	\$ 14,364.57	6.28%
Impact Existing Customers (DELCORA) - Eastern Authority 50%	362,465.28	\$ 61,646.74	6.28%
Impact Existing Customers (DELCORA) - Eastern Other (Rose Valley Pump Station) 50%	N/A	\$ 5.08	6.28%
Impact Existing Customers (DELCORA) - Eastern Other (Pocopson - Riverside) 50%	N/A	\$ 4.97	6.28%
Impact Existing Customers (DELCORA) - Eastern Other (Pocopson - Preserve) 50%	N/A	\$ 7.32	6.28%
Impact Existing Customers (DELCORA) - Eastern Other (Edgemont - Residential) 50%	4.08	\$ 6.67	6.28%
Impact Existing Customers (DELCORA) - Eastern Other (Edgemont - Commercial) 50%	29.49	\$ 24.33	6.28%
Impact Existing Customers (DELCORA) - Other (Spring Hill Farms) 50%	N/A	\$ 4.36	6.28%
Impact Existing Customers (Company Wastewater) - Residential - 50%	3.02	\$ 9.78	14.32%
Impact Existing Customers (Company Wastewater) - Commercial - 50%	21.94	\$ 30.76	14.32%
Impact Existing Customers (Company Wastewater) - Industrial - 50%	3.20	\$ 7.92	14.32%
Impact Existing Customers (Company Water) - Residential	4.08	\$ 2.99	4.58%
Impact Existing Customers (Company Water) - Commercial	37.05	\$ 18.77	4.58%
Impact Existing Customers (Company Water) - Industrial	211.51	\$ 88.39	4.58%

2.)	Rate of Return	Ratio	Cost Rate	WACC
	Debt	47.15%	4.43%	2.09%
	Equity	52.85%	10.00%	5.29%
		100.00%		7.37%

3.)	Gross Revenue Conversion Factor		
	Dollar of Revenue		1.0000
	Less: Gross Receipts (Revenue) Tax	0.00%	0.0000
	Less: Reg Assessments	0.62%	0.0062
	Less: Bad Debts	1.17%	0.0117
	State Taxable Income		0.982053
	State Income Tax	9.9999%	0.0982
	Federal Taxable Income		0.88384772
	Federal Tax Rate	21.00%	0.185608
	Federal Income Tax		0.68624052992
	Net Revenue Dollar		1.43217123
	Gross Revenue Conversion Factor		28.8999%
	EFT		

*** Below DOES NOT PRINT ***

Revenue Based on Expected Rate Case Filing Cycle:	Year 1 \$ 70,978,127	Year 2 \$90,480,127	Year 3 \$90,480,127	Year 4 \$90,480,127	Year 5 \$102,137,127	Year 6 \$102,137,127	Year 7 \$102,137,127	Year 8 \$145,886,127	Year 9 \$145,886,127	Year 10 \$145,886,127	Year 11 \$147,016,127	Year 12 \$147,016,127	Year 13 \$147,016,127	Year 14 \$156,219,127	Year 15 \$156,219,127	Year 16 \$156,219,127	Year 17 \$160,807,127	Year 18 \$160,807,127	Year 19 \$160,807,127	Year 20 \$161,656,127
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16	Year 17	Year 18	Year 19	Year 20
Revenue	\$79,887,127	\$90,480,127	\$92,996,127	\$95,952,127	\$102,137,127	\$104,518,127	\$108,548,127	\$145,886,127	\$145,982,127	\$146,050,127	\$147,016,127	\$149,303,127	\$152,707,127	\$156,219,127	\$159,492,127	\$160,019,127	\$160,807,127	\$161,125,127	\$161,424,127	\$161,856,127
OGM	41,912,283	50,741,641	50,741,454	51,381,703	54,619,598	55,230,502	55,933,664	35,010,928	35,878,406	36,595,954	37,334,507	38,063,617	38,864,618	39,638,764	40,424,373	41,196,754	42,020,223	42,852,101	43,704,717	44,575,405
Depreciation	8,247,122	8,618,480	9,040,257	9,552,154	10,201,393	10,580,523	11,321,981	24,344,166	24,224,508	24,071,498	24,116,165	24,452,167	25,034,876	25,638,529	26,185,559	26,116,524	26,100,254	25,975,444	25,842,129	25,689,777
Taxes Other	1,642,000	2,297,000	2,428,000	2,489,000	2,575,000	2,667,000	2,736,000	3,027,000	3,383,000	3,408,000	3,438,000	3,486,000	3,552,000	3,630,000	3,707,000	3,766,000	3,803,000	3,839,000	3,872,000	3,905,000
Income Taxes^	6,336,263	6,621,467	6,945,530	7,338,699	7,837,761	8,128,998	8,698,467	18,703,487	18,611,460	18,493,770	18,528,280	18,786,319	19,233,979	19,697,896	20,116,306	20,065,195	20,052,466	19,956,567	19,854,346	19,737,149
Operating Income	\$21,749,000	\$22,729,000	\$23,841,000	\$25,191,000	\$26,903,000	\$27,903,000	\$29,858,000	\$64,200,000	\$63,885,000	\$63,481,000	\$63,599,000	\$64,485,000	\$66,022,000	\$67,614,000	\$69,057,000	\$68,875,000	\$68,831,000	\$68,502,000	\$68,151,000	\$67,749,000
Required Operating Income	\$21,749,000	\$22,729,000	\$23,841,000	\$25,191,000	\$26,903,000	\$27,903,000	\$29,858,000	\$64,200,000	\$63,885,000	\$63,481,000	\$63,599,000	\$64,485,000	\$66,022,000	\$67,614,000	\$69,057,000	\$68,875,000	\$68,831,000	\$68,502,000	\$68,151,000	\$67,749,000
Operating Income Deficiency	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$1,000	-\$1,000	\$0	\$0
Gross Revenue Conversion Factor	1.432171	1.432171	1.432171	1.432171	1.432171	1.432171	1.432171	1.432171	1.432171	1.432171	1.432171	1.432171	1.432171	1.432171	1.432171	1.432171	1.432171	1.432171	1.432171	1.432171
Revenue Increase	\$0	\$0	\$0	\$0	\$0	\$0	\$0	-\$1,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	-\$1,000	\$1,000	\$0	\$0
Equity Rate Base	\$155,884,182	\$162,903,465	\$170,875,752	\$180,551,448	\$192,823,132	\$199,989,316	\$214,004,089	\$460,144,827	\$457,883,109	\$454,990,964	\$455,835,241	\$462,186,237	\$473,200,390	\$484,610,423	\$494,950,196	\$493,645,319	\$493,337,792	\$490,978,862	\$488,458,799	\$485,579,104
RDE	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%

Aqua Pennsylvania Wastewater, Inc.
Calculation of DELCORA Wastewater Regional Authority - Present Revenues

	Rate 2020	Customers 2020	Method	Gallons (Kgals) 2020	EDU's 2020	Revenue 2020
Service Charges:						
<u>Western</u>						
<u>Western Retail:</u>						
Residential/Commercial	\$5.75	13,600	per 1,000 Gallons Water Used	1,111,649		\$6,391,982
Residential/Commercial (Marcus Hook)	\$8.78	891	per 1,000 Gallons Water Used	41,761		\$366,662
Minimum Accounts	\$107.73		Annual Minimum Charge	3,869		\$416,807
Minimum Accounts (Marcus Hook)	\$147.23		Annual Minimum Charge			\$0
Subtotal Retail Residential:		14,491		1,157,279		\$7,175,451
<u>Western Retail Industrial (*) (^):</u>						
Industrial	\$6.93	7	per 1,000 Gallons	61,813		\$428,364
Subtotal Western Retail:		14,498		1,219,092		\$7,603,815
<u>Western Wholesale:</u>						
Western Wholesale (^)	\$2.87	6	per 1,000 Gallons	1,204,150		\$3,455,911
<u>EDU Wholesale:</u>						
Brook Haven	\$2.89	1	per 1,000 Gallons	270,981		\$783,135
Nether Providence	\$2.89	1	per 1,000 Gallons	371,721		\$1,074,274
Subtotal Western Wholesale:		2		642,702		\$1,857,409
<u>Western Wholesale Industrial (*) (^):</u>						
Western Wholesale Industrial	\$3.18	6	per 1,000 Gallons	2,881,050		\$9,161,739
<u>Chester Ridley Creek (^):</u>						
Southwest Authority	\$3.50	1	per 1,000 Gallons	967,250		\$3,385,375
Middletown	\$3.50	1	per 1,000 Gallons	602,250		\$2,107,875
Subtotal Chester Ridley Creek:		2		1,569,500		\$5,493,250
Total Western:						
		14,514		7,516,494		\$27,572,123
<u>Eastern</u>						
Central Delaware County Authority (^)	\$2.71	1	per 1,000 Gallons	3,832,500		\$10,386,075
Darby Creek Joint Authority (^)	\$2.71	1	per 1,000 Gallons	7,482,500		\$20,277,575
Muckinipates Authority (^)	\$2.71	1	per 1,000 Gallons	1,733,750		\$4,698,463
Total Eastern Authority Area:						
		3		13,048,750		\$35,362,113
<u>Other</u>						
<u>Rose Valley Pump Station:</u>						
Rose Valley Residents	\$972.00	373	Annual Per EDU		373	\$362,556
Nether Providence Residents	\$972.00	127	Annual Per EDU		127	\$123,444
		500		36,500		\$486,000
<u>Pocopson:</u>						
Riverside	\$950.00	160	Annual Per EDU		160	\$152,000
Preserve	\$1,400.00	66	Annual Per EDU		66	\$92,400
		226		21,654		\$244,400
<u>Edgmont (^):</u>						
Residential	\$1,275.00	679	Annual Per EDU	33,238	679	\$865,725
Commercial (Service Charge)	\$1,025.00		Annual Per EDU		152	\$155,800
Commercial (Volumetric Charge)	\$10.25	35	per 1,000 Gallons Water Used	12,387		\$126,967
		714		45,625		\$1,148,492
<u>Other Remote Locations</u>						
Spring Hill Farms		371		35,547		\$309,422
Other						\$140,578
Total Other Systems:						
		1,811		139,326		\$2,328,892
<u>Other Charges:</u>						
Residual Waste Disposal						\$5,000,000
Effluent Usage						\$90,000
Load Surcharge (*)						\$325,000
Other Fees (Late, Bad Debt)						\$300,000
Total Other Charges:						
						\$5,715,000
Total Revenue at Present Rates						
		16,328		20,704,570		\$70,978,127

(*) The surcharge rate is set at \$.32/lb. of Biochemical Oxygen Demand (BOD) and \$.285/lb. for Suspended Solids (SS), where BOD or SS strength exceeds 300 mg/L on a daily basis. Wastestreams with SS strengths exceeding 300 mg/L and generated from biological, chemical, or physical processes shall be evaluated and billed independently of other wastestreams. Wastestreams generated from processes to remove river water sediment or sediment from other natural bodies of water and with SS strengths exceeding 300 mg/L shall be evaluated and billed independently of other wastestreams.

(^) Billed on an estimated basis with true up to actual volume (quarterly/annually)

Aqua Pennsylvania Wastewater, Inc.
Calculation of DELCORA Wastewater Regional Authority - Operating and Maintenance Expenses

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16	Year 17	Year 18	Year 19	Year 20	Year 21	Year 22
OPERATING AND MAINTENANCE EXPENSES:																						
O&M Labor Exp Reg	\$ 11,638,300	\$ 11,871,066	\$ 12,108,487	\$ 12,350,657	\$ 12,597,670	\$ 12,849,623	\$ 13,106,616	\$ 13,368,748	\$ 13,636,123	\$ 13,908,845	\$ 14,187,022	\$ 14,470,763	\$ 14,760,178	\$ 15,055,382	\$ 15,356,489	\$ 15,663,619	\$ 15,976,891	\$ 16,296,429	\$ 16,622,358	\$ 16,954,805	\$ 17,293,901	\$ 17,639,779
O&M Labor Exp OT	1,129,932	1,152,531	1,175,581	1,199,093	1,223,075	1,247,536	1,272,487	1,297,937	1,323,895	1,350,373	1,377,381	1,404,928	1,433,027	1,461,688	1,490,921	1,520,740	1,551,154	1,582,178	1,613,821	1,646,098	1,679,020	1,712,600
O&M Employee Benefits	6,837,151	6,973,894	7,113,372	7,255,640	7,400,752	7,548,767	7,699,743	7,853,738	8,010,812	8,171,029	8,334,449	8,501,138	8,671,161	8,844,584	9,021,476	9,201,905	9,385,943	9,573,662	9,765,136	9,960,438	10,159,647	10,362,840
O&M Purchased VWV Treatment	11,327,262	19,000,000	19,000,000	19,000,000	21,553,961	21,556,992	21,560,083	160,816	164,032	167,313	167,313	167,313	167,313	167,313	167,313	167,313	167,313	167,313	167,313	167,313	167,313	167,313
O&M Purchased Power	2,690,100	2,743,902	2,798,780	2,854,756	2,911,851	2,970,088	3,029,490	3,090,079	3,151,881	3,214,919	3,279,217	3,344,801	3,411,697	3,479,931	3,549,530	3,620,520	3,692,931	3,766,789	3,842,125	3,918,968	3,997,347	4,077,294
O&M Chemicals	990,000	1,009,800	1,029,996	1,050,596	1,071,608	1,093,040	1,114,901	1,137,199	1,159,943	1,183,142	1,206,804	1,230,941	1,255,559	1,280,671	1,306,284	1,332,410	1,359,058	1,386,239	1,413,964	1,442,243	1,471,088	1,500,510
O&M Mgmt Fees	720,000	734,400	749,088	764,070	779,351	794,938	810,837	827,054	843,595	860,467	877,676	895,230	913,134	931,397	950,025	969,025	988,406	1,008,174	1,028,337	1,048,904	1,069,882	1,091,280
O&M Cust Ops ACO (@ \$10.00 per customer)	180,000	183,600	187,272	191,017	194,838	198,735	202,709	206,763	210,899	215,117	219,419	223,807	228,284	232,849	237,506	242,256	247,101	252,043	257,084	262,226	267,471	272,820
O&M OS Engineering	197,500	201,450	205,479	209,589	213,780	218,056	222,417	226,865	231,403	236,031	240,751	245,566	250,478	255,487	260,597	265,809	271,125	276,548	282,079	287,720	293,475	299,344
O&M OS Legal	230,000	234,600	239,292	244,078	248,959	253,939	259,017	264,198	269,482	274,871	280,369	285,976	291,696	297,530	303,480	309,550	315,741	322,056	328,497	335,067	341,768	348,603
O&M OS Operations	1,252,500	1,277,550	1,303,101	1,329,163	1,355,746	1,382,861	1,410,518	1,438,729	1,467,503	1,496,853	1,526,791	1,557,326	1,588,473	1,620,242	1,652,647	1,685,700	1,719,414	1,753,802	1,788,878	1,824,656	1,861,149	1,898,372
O&M OS Maintenance	2,848,450	2,905,419	2,963,527	3,022,798	3,083,254	3,144,919	3,207,817	3,271,974	3,337,413	3,404,161	3,472,245	3,541,690	3,612,523	3,684,774	3,758,469	3,833,639	3,910,311	3,988,518	4,068,288	4,149,654	4,232,647	4,317,300
O&M OS Other	869,950	887,349	905,096	923,198	941,662	960,495	979,705	999,299	1,019,285	1,039,671	1,060,464	1,081,673	1,103,307	1,125,373	1,147,881	1,170,838	1,194,255	1,218,140	1,242,503	1,267,353	1,292,700	1,318,554
O&M Supplies	464,938	474,237	483,721	493,396	503,264	513,329	523,596	534,068	544,749	555,644	566,757	578,092	589,654	601,447	613,476	625,745	638,260	651,025	664,046	677,327	690,873	704,691
O&M Other	432,200	440,844	449,661	458,654	467,827	477,184	486,727	496,462	506,391	516,519	526,849	537,386	548,134	559,097	570,279	581,684	593,318	605,184	617,288	629,634	642,226	655,071
Total O&M Expenses ==>	\$ 41,808,283	\$ 50,090,641	\$ 50,712,454	\$ 51,346,703	\$ 54,547,598	\$ 55,210,502	\$ 55,886,664	\$ 35,173,928	\$ 35,877,406	\$ 36,594,954	\$ 37,323,507	\$ 38,066,631	\$ 38,824,618	\$ 39,597,764	\$ 40,386,373	\$ 41,190,754	\$ 42,011,223	\$ 42,848,101	\$ 43,701,717	\$ 44,572,405	\$ 45,460,507	\$ 46,366,370

Aqua Pennsylvania Wastewater, Inc.
Calculation of DELCORA Wastewater Regional Authority - Taxes Other Than Income

<i><u>TAXES OTHER THAN INCOME (PRE-RATE CASE)</u></i>	<i><u>Rate</u></i>	<i><u>Year 1</u></i>	<i><u>Year 2</u></i>	<i><u>Year 3</u></i>	<i><u>Year 4</u></i>	<i><u>Year 5</u></i>	<i><u>Year 6</u></i>	<i><u>Year 7</u></i>	<i><u>Year 8</u></i>	<i><u>Year 9</u></i>	<i><u>Year 10</u></i>	<i><u>Year 11</u></i>	<i><u>Year 12</u></i>	<i><u>Year 13</u></i>	<i><u>Year 14</u></i>	<i><u>Year 15</u></i>	<i><u>Year 16</u></i>	<i><u>Year 17</u></i>	<i><u>Year 18</u></i>	<i><u>Year 19</u></i>	<i><u>Year 20</u></i>
Payroll Taxes (FICA, FUTA, SUTA)	8.000%	\$ 931,064	\$1,021,459	\$1,041,888	\$1,062,725	\$1,083,980	\$1,105,660	\$1,127,773	\$1,150,328	\$1,173,335	\$1,196,801	\$1,220,737	\$1,245,152	\$1,270,055	\$1,295,456	\$1,321,366	\$1,347,793	\$1,374,749	\$1,402,244	\$1,430,289	\$1,458,894
Property Taxes / (Purta)	0.890%	\$ 631,705	\$ 710,995	\$ 805,273	\$ 827,666	\$ 853,974	\$ 909,020	\$ 930,211	\$ 966,078	\$1,298,387	\$1,299,241	\$1,299,846	\$1,308,444	\$1,328,798	\$1,359,093	\$1,390,350	\$1,419,480	\$1,424,170	\$1,431,183	\$1,434,014	\$1,436,675
Regulatory Assessments	0.624%	\$ 23,205	\$ 498,649	\$ 564,769	\$ 580,474	\$ 598,925	\$ 637,531	\$ 652,393	\$ 677,548	\$ 910,609	\$ 911,208	\$ 911,633	\$ 917,662	\$ 931,938	\$ 953,185	\$ 975,107	\$ 995,536	\$ 998,826	\$1,003,745	\$1,005,730	\$1,007,596
Total		\$ 1,585,974	\$2,231,103	\$2,411,930	\$2,470,865	\$2,536,879	\$2,652,211	\$2,710,377	\$2,793,955	\$3,382,330	\$3,407,251	\$3,432,216	\$3,471,258	\$3,530,791	\$3,607,735	\$3,686,822	\$3,762,809	\$3,797,745	\$3,837,172	\$3,870,032	\$3,903,165

Docket No. R-2018-3003558

Schedule A-2
Witness: William C. Packer

AQUA PENNSYLVANIA, INC.
NUMBER OF CUSTOMERS SERVED
AND WHOSE BILLS WILL BE CHANGED

LINE NO.	CUSTOMER CLASS	SERVED AT 3/31/2017	SERVED AT 3/31/2018	TO BE SERVED AT 3/31/2019	TO BE SERVED AT 3/31/2020	INCREASED BILLS	DECREASED BILLS	UNCHANGED BILLS
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	Metered:							
2	Residential	391,514	394,192	395,423	396,654	396,654	-	-
3	Commercial	22,264	22,460	22,598	22,737	22,733	4	-
4	Industrial	781	779	776	773	773	-	-
5	Public	1,254	1,256	1,256	1,256	1,256	-	-
6	Bulk Water	-	-	-	-	-	-	-
7	Private Fire Protection	5,197	5,301	5,403	5,504	5,504	-	-
8	Sales to Water Utilities	17	16	16	16	16	-	-
9	Total Metered Customers	421,027	424,004	425,472	426,940	426,936	4	-
10	Other:							
11	Unmetered	903	943	943	943	943	-	-
12	Availability Charge	2,801	2,769	-	-	-	2,769	-
13	Public Fire Protection	263	263	263	263	263	-	-
14	Private Fire Protection	766	779	779	779	779	-	-
15	Total Customers	425,760	428,758	427,457	428,925	428,921	2,773	-

Docket No. R-2018-3003561

Schedule A-2
Witness: William C. Packer

AQUA PENNSYLVANIA WASTEWATER, INC.
NUMBER OF CUSTOMERS SERVED
AND WHOSE BILLS WILL BE CHANGED

LINE NO.	CUSTOMER CLASS	SERVED AT 3/31/2017	SERVED AT 3/31/2018	TO BE SERVED AT 3/31/2019	TO BE SERVED AT 3/31/2020	INCREASED BILLS	DECREASED BILLS	UNCHANGED BILLS
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	Residential	16,062	17,051	17,051	17,051	16,981	-	70
2	Commercial	1,324	1,469	1,469	1,427	1,427	42	-
3	Industrial	1	1	1	1	1	-	-
4	Public	38	40	40	40	40	-	-
5	Miscellaneous	-	-	-	-	-	-	-
6	Availability Charge	469	446	-	-	-	446	-
7	Total Customers	17,894	19,007	18,561	18,561	18,449	488	70

ADD	Limerick	Res	4,882
		Com	315
		Ind	-
ADD	East Bradford	Res	1,213
		Com	33
		Ind	2
ADD	Cheltenham	Res	9648
		Com	534
		Ind	14
		Pub	23
Total Existing WW Customers			35,225

Wastewater Settlement Revenues => Exhibit 1(b) from 2018/2019 APWW Rate Case =>	\$ 17,920,976
Add East Bradford WW	\$ 1,082,402
Add Limerick WW	\$ 4,771,000
Add Cheltenham WW	\$ 7,321,678
Total Existing Revenues	<u>\$ 31,096,256</u>

Docket No. R-2018-3003558

Water Settlement Revenues => Exhibit 1(b) from 2018/2019 APWW Rate Case =>	\$ 473,763,919
Residential	\$ 307,623,471
Commercial	\$ 111,880,600
Industrial Revenues	\$ 16,482,317
Total Existing Revenues (Res, Com, & Ind classes)	<u>\$ 435,986,388</u>

AQUA PENNSYLVANIA, INC.

1-A(a) WATER AND 1-B(b) WASTEWATER REVENUE REQUIREMENT - SUMMARY

	Total Company	Water Operations	Wastewater Operations
Present Rate Revenue	\$ 444,858,981	\$ 431,415,676	\$ 13,443,305
Additional Revenue Requirement	47,002,319	35,263,332	11,738,987
Act 11 Allocation (1)	-	7,261,316	(7,261,316)
Proposed Revenues	<u>\$ 491,861,300</u>	<u>\$ 473,940,324</u>	<u>\$ 17,920,976</u>
Rate Increase/(Decrease) - \$	\$ 47,002,319	\$ 42,524,648	\$ 4,477,671
Rate Increase/(Decrease) - %	10.57%	9.86%	33.31%

(1) **Notes:**
The allocation between wastewater operations and water operations is achieved by the proposed consolidation of water and wastewater revenue requirements to derive the water and wastewater rates proposed by the Company in this case.

Aqua Pennsylvania, Inc
Residential Average Monthly Bill Comparison - Wastewater
Docket Nos. A-2018-3004108, A-2018-3004109, R-2018-3003558 and R-2018-3003561

	<u>Current Division</u>	<u>New Rate Zone</u>	<u>Avg Consumption</u>	<u>Present Rates</u>	<u>Settlement Rates</u>	<u>\$ Change</u>	<u>% Change</u>	<u>Metered Number of Bills</u>	<u>Metered & Unmetered Number of Bills</u>
1	Bridlewood Division	1	4,100	43.04	67.48	24.44	56.79%	3,908	3,908
2	CS Sewer Division (Masthope)	6	1,300	28.99	40.94	11.95	41.22%	15,517	15,578
3	Deerfield Knoll Division	3	3,000	57.87	71.50	13.63	23.55%	1,426	1,426
4	Eagle Rock Division	1	1,900	39.67	45.44	5.77	14.54%	11,704	11,716
5	East Bradford Division	5	5,400	106.43	125.84	19.41	18.24%	972	972
6	Laurel Lakes Division	3	4,200	51.49	81.70	30.21	58.67%	2,348	2,372
7	Links at Gettysburg Division	3	2,700	63.58	68.95	5.37	8.45%	2,046	2,046
8	Little Washington Division	5	3,400	98.05	106.64	8.59	8.76%	4,152	4,164
9	Media Division	1	4,200	42.19	62.92	20.73	49.13%	20,733	20,773
10	Newlin Green Division	5*	6,500	158.75	158.75	0.00	0.00%	588	588
11	Peddlers View Division	4	4,100	78.44	100.95	22.51	28.70%	2,564	2,564
12	Penn Township Division	1B	3,400	40.70	55.00	14.30	35.14%	3,148	3,148
13	Plumsock Division	5	5,300	107.12	124.88	17.76	16.58%	456	456
14	Rivercrest Division	2	3,200	45.22	61.92	16.70	36.93%	5,785	5,869
15	Stony Creek Division	3	2,500	54.86	67.25	12.39	22.58%	2,558	2,558
16	The Greens at Penn Oaks Division	5	3,500	106.38	107.60	1.22	1.15%	838	850
17	Thornhurst Division	3	2,600	52.36	68.10	15.74	30.06%	3,538	3,538
18	Treasure Lake Division	1A	3,000	40.52	49.90	9.38	23.15%	25,259	25,590
19	Twin Hills Division	4	4,200	70.15	101.90	31.75	45.26%	3,947	3,947
20	White Haven Division	2	2,900	47.07	59.49	12.42	26.39%	5,568	5,736
21	Willistown Woods Division	3	3,100	54.92	72.35	17.43	31.74%	8,888	8,888
22	Woodloch Springs Division	3	2,000	51.87	63.00	11.13	21.46%	4,907	4,987
23	Beech Mountain Lakes Division	3	Unmetered	56.04	80.00	23.96	42.76%		11,234
24	Bunker Hill Subdivision	1A	Unmetered	31.92	56.20	24.28	76.07%		790
25	Emlenton Borough Division	2	Unmetered	45.00	68.40	23.40	52.00%		4,416
26	Honeycroft Village Division	4	Unmetered	66.67	100.00	33.33	49.99%		1,250
27	Lake Harmony Division	4	Unmetered	65.63	100.00	34.37	52.37%		12,033
28	New Daleville Division	4	Unmetered	74.17	100.00	25.83	34.83%		1,272
29	Pinecrest Division	2	Unmetered	\$44.28	\$68.40	\$24.12	54.48%		4,002
30	Tobyhanna Township Division	4	Unmetered	66.67	100.00	33.33	49.99%		6,453
31	Sage Hill	5*	Unmetered	180.00	180.00	0.00	0.00%		251
WEIGHTED AVERAGE Metered			3,018		62.09				
WEIGHTED AVERAGE ALL					68.27				

5* - Special Charges have been assigned to these divisions within Rate Zone 5.

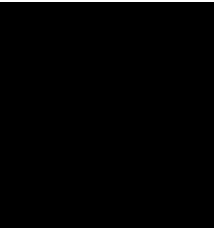
All Residential Customers are charged a customer charge on an EDU basis with the exception of the Media and Treasure Lake Divisions, which are charged a customer charge based on the appropriate meter size of the applicable Rate Zone. Media and Treasure Lake rates above represent a 5/8" meter.

Pinecrest Division's Present Rate is based on the weighted average of the present rates of all customers both inside Pinecrest and outside Pinecrest.

Bridlewood Division's Average Consumption and Present Rate are based on the weighted average of both townhome and single family home customers.

As per the Asset Purchase Agreement, the Tobyhanna Division rate increase will not become effective until January 1, 2020.

Aqua Pennsylvania, Inc
Commercial Average Monthly Bill Comparison - Wastewater
Docket Nos. A-2018-3004108, A-2018-3004109, R-2018-3003558 and R-2018-3003561

	<u>Current Division</u>	<u>New Rate Zone</u>	<u>Avg Consumption</u>	<u>Present Rates</u>	<u>Settlement Rates</u>	<u>\$ Change</u>	<u>% Change</u>	<u>Number of Bills</u>
1	CS Sewer Division (Masthope)	6	24,800	41.33	64.44	23.11	56%	96
2	Eagle Rock Division	1	11,700	52.02	124.92	72.90	140%	323
3	Links at Gettysburg Division	3	20,000	216.93	216.00	-0.93	0%	24
4	Media Division	1	15,700	111.87	150.32	38.45	34%	3,388
5	Penn Township Division	1B	88,800	873.10	955.50	82.40	9%	507
6	Rivercrest Division	2	12,200	92.66	134.82	42.16	45%	108
7	The Greens at Penn Oaks Division	5	78,400	798.26	1,122.64	324.38	41%	12
8	Tobyhanna Township Division	4	9,600	86.00	153.20	67.20	78%	1449
9	Treasure Lake Division	1A	31,700	153.53	230.71	77.18	50%	382
10	Village at Valley Forge Division	1A	144,500	1,054.42	1,220.35	165.93	16%	243
11	White Haven Division	2	5,700	50.60	82.17	31.57	62%	463
12	Willistown Woods Division	3	3,200	55.23	73.20	17.97	33%	1,428
13	Woodloch Springs Division	3	117,000	62.62	71.50	8.88	14%	98
14	Avon Grove School District	5*	Unmetered	6,625.00	8,281.25	1656.25	25%	
15	Beech Mountain Lakes Division	3	Unmetered	69.74	80.00	10.26	15%	
16	Bridlewood Division	1	Unmetered	38.42	61.40	22.98	60%	
17	Emlenton Borough Division	2	Unmetered	45.00	68.40	23.40	52%	
18	Honeycroft Rillage Division	4	Unmetered	466.69	700.00	233.31	50%	
19	Lake Harmony Division	4	Unmetered	65.63	100.00	34.37	52%	
20	Pinecrest Division	2	Unmetered	\$52.32	\$68.40	16.08	31%	
WEIGHTED AVERAGE - METERED ONLY			21,936		214.73			

5* - Special Charges have been assigned to these Divisions within Rate Zone 5.

All Residential Customers are charged a customer charge on an EDU basis with the exception of the Media and Treasure Lake Divisions, which are charged a customer charge based on the appropriate meter size of the applicable Rate Zone. Media and Treasure Lake rates above represent a 5/8" meter.

Bridlewood Division's Present Rate and Settlement Rate are based on the weighted average of the EDU rate charged to the 2 commercial customers.

Woodloch Springs Division's Present Rate and Settlement Rate are based on the customer charge per EDU.

As per the Asset Purchase Agreement, the Tobyhanna Division rate increase will not become effective until January 1, 2020.

Aqua Pennsylvania, Inc
Industrial Average Monthly Bill Comparison - Wastewater
Docket Nos. A-2018-3004108, A-2018-3004109, R-2018-3003558 and R-2018-3003561

	<u>Current Division</u>	<u>New Rate Zone</u>	<u>Meter Size</u>	<u>Avg Consumption</u>	<u>Present Rates</u>	<u>Settlement Rates</u>	<u>\$ Change</u>	<u>% Change</u>
7	Media Division	1	5/8"	3,200	36.13	55.32	19.19	53%

Aqua Pennsylvania, Inc
Residential Average Monthly Bill Comparison - Water
Docket Nos. A-2018-3004108, A-2018-3004109, R-2018-3003558 and R-2018-3003561

	<u>Current Division</u>	<u>New Rate Zone</u>	<u>Present Rates*</u>	<u>Settlement Rates*</u>	<u>\$ Change</u>	<u>% Change</u>	<u>Number of Bills</u>	<u>Consumption</u>	<u>Average Gallons</u>
1	Main Division Eagle Rock, Fawn Lake, Tanglewood, Thornhurst, Woodledge Village, Western & Pinecrest Divisions	1	\$59.85	\$65.52	\$5.67	9.47%	4,173,338	172,154,838	4,125
2		3	59.85	65.52	5.67	9.47%	36,516	737,618	2,020
3	Bensalem Division	1	55.80	65.52	9.72	17.42%	179,147	7,534,487	4,206
4	Chalfont Division	2	47.27	65.52	18.25	38.61%	25,821	1,021,170	3,955
5	Oakland Beach/Lakeside Acres Division	3	57.04	65.52	8.48	14.87%	11,344	261,978	2,309
6	CS Water Division (Masthope)	3	49.36	65.52	16.16	32.74%	15,615	204,095	1,307
7	Country Club Gardens Division	1	40.29	52.98	12.69	31.50%	4,979	223,135	4,482
8	Clarendon Water Division	1	51.05	65.52	14.47	28.34%	3,407	109,345	3,210
9	Kratzerville Division	1	52.29	65.52	13.23	25.30%	1,727	58,671	3,398
10	Honesdale Division	1	52.20	65.52	13.32	25.52%	17,272	632,741	3,663
11	Sand Springs Division	1	40.73	52.98	12.25	30.08%	5,023	168,199	3,349
12	Mifflin Township Division	1	37.11	50.64	13.53	36.46%	5,606	176,827	3,154
13	Beech Mountain Lakes Division	1	21.45	31.73	10.28	47.93%	11,187	369,388	3,302
14	Treasure Lake Division	2	27.20	40.15	12.95	47.61%	25,311	765,777	3,026
15	Concord Park Division	2	30.88	43.91	13.03	42.20%	1,980	77,030	3,890
16	Bristol Township Water System Division	1	24.24	38.40	14.16	58.42%	5,089	226,795	4,457
17	Mt Jewett Borough Division	1	45.95	65.52	19.57	42.59%	4,832	155,007	3,208
18	Bunker Hill Subdivision	Bunker Hill	12.88	26.36	13.48	104.66%	779	31,897	4,097
19	Robin Hood Lakes Division	1	40.16	53.09	12.93	32.20%	2,397	67,756	2,826
20	East Cameron Division	1	57.02	65.52	8.50	14.91%	609	12,076	1,982
21	Sun Valley Division**	Sun Valley	15.00	19.50	4.50	30.00%			
22	Superior Water Company	2	57.02	65.52	8.50	14.91%	47,018	2,045,060	4,350
WEIGHTED AVERAGE				65.20					4,080

*Residential water rates are based on 5/8" meter and an average consumption of 4,080 gallons per month for all divisions.

**Sun Valley customers are flat rate, unmetered customers.

Aqua Pennsylvania, Inc
Commercial Average Monthly Bill Comparison - Water
Docket Nos. A-2018-3004108, A-2018-3004109, R-2018-3003558 and R-2018-3003561

	<u>Current Division</u>	<u>New Rate Zone</u>	<u>Meter Size</u>	<u>Avg Consumption</u>	<u>Present Rates</u>	<u>Settlement Rates</u>	<u>\$ Change</u>	<u>% Change</u>	<u>Number of Bills</u>
1	Main Division Eagle Rock, Fawn Lake, Tanglewood, Thornhurst, Woodledge Village, Western	1	5/8"	37,800	\$380.00	\$419.63	\$39.63	10.43%	236,233
2	& Pinecrest Divisions	3	5/8"	13,800	171.34	186.73	15.39	8.98%	665
3	Bensalem Division	1	5/8"	50,700	468.54	531.51	62.97	13.44%	15,289
4	Chalfont Division	2	5/8"	7,100	70.32	102.49	32.17	45.75%	1,678
5	Oakland Beach/Lakeside Acres Division	3	5/8"	5,500	84.39	93.45	9.06	10.74%	381
6	CS Water Division (Masthope)	3	5/8"	42,300	426.00	468.66	42.66	10.01%	57
7	Country Club Gardens Division	1	5/8"	33,900	271.22	333.27	62.05	22.88%	11
8	Clarendon Water Division	1	5/8"	9,900	93.91	135.81	41.90	44.62%	252
9	Kratzerville Division	1	5/8"	7,600	82.56	108.44	25.88	31.35%	23
10	Honesdale Division	1	5/8"	12,600	133.84	164.18	30.34	22.67%	3,789
11	Sand Springs Division	1	2"	40,800	309.80	523.34	213.54	68.93%	12
12	Mifflin Township Division	1	5/8"	19,600	112.70	174.80	62.10	55.10%	369
13	Beech Mountain Lakes Division	1	5/8"	23,000	51.34	95.40	44.06	85.82%	60
14	Treasure Lake Division	2	5/8"	30,800	121.26	185.24	63.98	52.76%	393
15	Concord Park Division	2	4"	487,300	2,226.92	3,381.86	1,154.94	51.86%	12
16	Bristol Township Water System Division	1	5/8"	14,800	116.15	146.76	30.61	26.35%	1,785
17	Mt Jewett Borough Division	1	5/8"	2,200	33.07	44.18	11.11	33.60%	444
20	East Cameron Division	1	3/4"	300	50.00	34.04	(15.96)	-31.92%	28
22	Superior Water Company	2	5/8"	8,400	99.18	117.96	18.78	18.94%	1,077
	WEIGHTED AVERAGE			37,047		409.72			

Aqua Pennsylvania, Inc
Industrial Average Monthly Bill Comparison - Water
Docket Nos. A-2018-3004108, A-2018-3004109, R-2018-3003558 and R-2018-3003561

	<u>Current Division</u>	<u>New Rate Zone</u>	<u>Meter Size</u>	<u>Avg Consumption</u>	<u>Present Rates</u>	<u>Settlement Rates</u>	<u>\$ Change</u>	<u>% Change</u>	<u>Number of Bills</u>
1	Main Division	1	5/8"	231,500	\$1,897.56	\$2,099.59	\$202.03	10.65%	8,254
3	Bensalem Division	1	1"	53,500	523.48	590.30	66.82	12.76%	853
4	Chalfont Division	2	2"	37,000	358.73	484.19	125.46	34.97%	57
5	Oakland Beach/Lakeside Acres Division	3	5/8"	76,500	691.26	765.28	74.02	10.71%	12
10	Honesdale Division	1	5/8"	23,200	222.27	275.01	52.74	23.73%	72
17	Mt Jewett Borough Division	1	1"	600	22.11	59.64	37.53	169.74%	24
	WEIGHTED AVERAGE			211,513		1,930			

Aqua Pennsylvania, Inc.
762 W. Lancaster Avenue
Bryn Mawr, PA 19010-3489

Toll Free: 877.987.2782
Fax: 866.780.8292
AquaAmerica.com

Questions about your water service? Contact us before the due date.

Bill Date

Total Amount Due

Current Charges Due Date

September 28, 2020 \$ 1,496.28

October 20, 2020

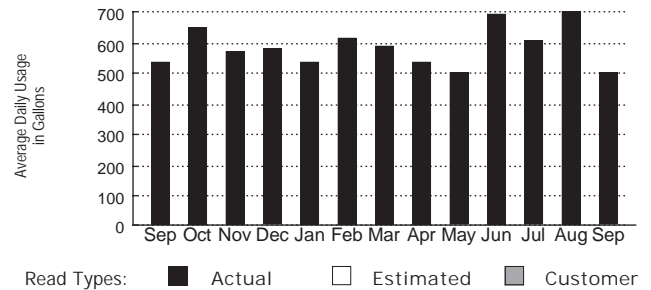
Meter Data

Meter	Size	Billing Period	Days	Read Type	Meter Readings	Usage	Units
	5/8	09/24/20 08/25/20	30	Actual Actual	2003400 1988400	15,000	Gallons
Average Daily Usage = 500 Gallons		Total Days: 30		Total Usage:		15,000	Gallons

Billing Detail

Amount Owed from Last Bill	\$ 1,568.04	
Total Payments Received	236.00	
Remaining Balance	1,332.04	
Customer Charge.....	18.00	
2,000 gallons @ \$0.010649 per gallon.....	21.30	
Next 13,000 gallons @ \$0.012608 per gallon.....	163.90	
Total Water Charges.....	203.20	
Distribution System Improvement Charge (Water)	2.48	
Helping Hand Credit.....	35.00	Credit
AQUA/Peoples Rate Credit - Water	6.44	Credit
Amount Due.....	\$ 1,496.28	

Water Usage History



Message Center (see reverse side for other information)

- Effective July 1, 2020 the allowable water DSIC is 1.22%. The PA Public Utility Commission permits a maximum water DSIC of 7.50%.
- Aqua has joined with Pennsylvania-based Peoples Gas. As a result, you have received a one-time rate credit as shown above.
- On Monday, Feb. 3, 2020, Aqua America Inc. changed its name to Essential Utilities Inc. This change has no impact on Aqua Pennsylvania, which will retain its name and identity and operate under Essential. You will continue to receive your bill from Aqua and there will be no impact to you as a customer.

RETURN THIS PORTION WITH YOUR PAYMENT



Aqua Pennsylvania, Inc.
762 W. Lancaster Avenue • Bryn Mawr, PA 19010-3489

MAKE CHECK PAYABLE TO:
Aqua PA

Account Number

Please do not remit payment to the above address

Cyc=10EI 1up=2628792

Seq=14406

DUE DATE
10/20/2020

TOTAL AMOUNT DUE
\$1,496.28

Amount Enclosed \$



AQUA PENNSYLVANIA

PO BOX 70279

PHILADELPHIA PA 19176-0279



Toll Free: 877.987.2782

Questions About Your Bill?

Fax: 866.780.8292

WCP-2R Schedule B

AquaAmerica.com

If you have a billing question or complaint, call or write to us before the due date on your bill. When writing, please use a separate piece of paper and include your name, address and account number. Notes written on the bill may delay processing of your payment. Our customer service address is listed on the front of the bill. You may also contact us for a rate schedule which is an explanation of how to verify that your bill is correct or for an explanation of our charges. Please notify our office immediately upon change of occupancy, ownership or mailing address, as the customer is responsible for all charges until we are notified.

If your bill is based on zero usage, there may be a problem with your meter reading equipment. If there is a problem with your meter reading equipment, you will be responsible for the water usage or leakage not reported on this bill. Please call customer service if you have any questions or to have your meter reading equipment serviced.

Please visit AquaAmerica.com for Rules and Regulations governing your service, including topics like your responsibility for the customer service line, curb box and meter box/vault.

Explanation Of Terms

Actual (A) Read: Meter reading obtained by a company employee or one of our automatic meter reading systems.

Customer Charge: This charge covers the cost of having water service available, including operations, maintenance, meter reading, and other necessary services that are not covered under the consumption charge. It is billed whether or not you use any water.

Customer Read: Meter reading obtained from our customer.

Distribution System Improvement Charge (DSIC): The DSIC is a percentage charge that is applied to the bill. The charge covers costs associated with replacing aging distribution system facilities, such as water mains, service lines, meters, valves, fire hydrants, etc.

Employee Identification: All company employees carry an identification card showing their picture and employee number.

Estimated (E) Bill: When we are unable to read your meter, we base the bill on your past water use. If you receive an estimated bill, you may have a new bill by reading the meter and calling customer service with that reading. Note: revised bills will not be issued after the due date of the estimated bill.

Late Charge: A penalty of 1.25 percent on unpaid balances, not to exceed 15 percent yearly.

Meter Reading: We attempt to read the water meter every billing period. We either have our meter reader visit your property or obtain the reading through one of our automatic meter reading systems.

Minimum Charge: This charge includes a water allowance, plus the cost of having water service available, including operations, maintenance, meter reading, and other necessary services that are not covered under the consumption charge. It is billed whether or not you use any water.

Payment Methods: You can pay your bill by any of the following methods:

By mail: Place your check or money order in the enclosed pre-addressed envelope. Put a stamp on the envelope and mail it to Aqua Pennsylvania: PO Box 70279, Philadelphia, PA 19176-0279. Do not send cash.

By phone: Customers with bank accounts or credit cards may pay their bills over the phone for a fee by calling this toll free number: 866.269.2906. Customers with bank accounts may also pay through their bank. Call customer service or your bank for details.

In Person: Pay in person (with cash or check) at convenient Western Union locations throughout Aqua Pennsylvania's service territory. Payments are credited to your account the same day or the next business day if you make payments on a weekend or holiday. Please call us or visit AquaAmerica.com to find the Western Union location closest to you.

WaterSmart e-Billing: Switch to paperless billing today. Enjoy the convenience of viewing and paying your bill online. Visit us at AquaAmerica.com to sign up today!

Payment Terms: You should pay your bill on or before the due date.

Return Check Charge: If for any reason your check is returned to us from the bank, we will add a service charge to your account.

State Tax Adjustment Surcharge (STAS): This is a charge for certain tax changes, which the Pennsylvania Public Utility Commission allows the company to recover.



View your account, pay your current bill, check your daily balance, sign up for paperless billing, make a one-time payment.

Get Started >

More Ways To Pay

Save time and cut clutter with paperless billing!

Enroll today in WaterSmart e-Billing. You can cut the clutter of a paper bill, and we'll notify you by email when your bill is available to view online. It's simple, secure, and free of charge.

Visit AquaAmerica.com for more details.

**Application of Aqua Pennsylvania Wastewater Inc. pursuant to Sections 507, 1102 and 1329 of the Public Utility Code for Approval of its Acquisition of the Wastewater System Assets of the Delaware County Regional Water Quality Control Authority
Docket No. A-2019-3015173**

**Responses of the Bureau of Investigation and Enforcement to
Aqua Pennsylvania Wastewater, Inc. Interrogatories – Set VII
Witness: Lisa A. Gumby**

Aqua-VII-2 Ref: Page 18, Lines 2-4: Is it I&E's position that DELCORA may provide former DELCORA customers and acquired Aqua customers in DELCORA's former service territory a credit based on the proceeds of the Aqua-DELCORA transaction, provided such credit is not part of the Aqua bill? Explain your answer in detail and provide all documents that support your answer.

Response: A response to this question cannot be accurately determined in the hypothetical scenario posed. Whether distribution of sales proceeds would or would not be considered a violation of 66 Pa. C.S. § 1303 would largely depend upon how DELCORA would establish and disperse the credits. If such a return of sales proceeds was unrelated to billings and tariffed rates as generated by Aqua subsequent to the sale, I&E would not consider such a sharing of sales proceeds inappropriate.

**Application of Aqua Pennsylvania Wastewater Inc. pursuant to Sections 507, 1102 and 1329 of the Public Utility Code for Approval of its Acquisition of the Wastewater System Assets of the Delaware County Regional Water Quality Control Authority
Docket No. A-2019-3015173**

**Responses of the Bureau of Investigation and Enforcement to
Aqua Pennsylvania Wastewater, Inc. Interrogatories – Set VII
Witness: Lisa A. Gumby**

Aqua-VII-1 Ref: Page 17, Lines 17-19: Is it I&E position that a public utility's bill to customers may not reflect a credit to billed tarified rates if the funds for that credit come from a third party who is not the public utility? Explain your answer in detail and provide all documents that support your answer.

Response: I&E's position is that application of a bill credit to a customer's bill, whether paid by the utility or a third party, constitutes a rate subsidy in that the customer is not paying the utility's tarified rates. As noted in I&E's direct testimony, it is I&E's position that this arrangement violates 66 Pa. C.S. § 1303; however, as this position partly relies upon a legal interpretation, the specifics of that legal position will be addressed by counsel in briefing. Because a legal interpretation is required, counsel will provide the appropriate legal support during the briefing phase of this case. All other support I relied upon is already identified in my direct testimony.

Respondent: Robert Willert

Date: 8/28/2020

APPLICATION OF AQUA PENNSYLVANIA WASTEWATER, INC.

DOCKET NO. A-2019-3015173

OFFICE OF CONSUMER ADVOCATE

SET I INTERROGATORIES DIRECTED TO DELCORA

- OCA-I-36** DELCORA's placement of proceeds into trust. Refer to the Application at page 8, paragraph 36, and to Exhibit U2, Mr. Packer's testimony, and Exhibit U2, Appendix B (Memorandum of Understanding) and to Exhibit W1, Mr. Willert's testimony.
- a. Show in detail how DELCORA will identify the amount of proceeds to be placed into the trust.
 - b. How will DELCORA account for these amounts while being held in the trust?
 - c. How frequently will DELCORA make payments to Aqua from the trust and how will DELCORA determine the amounts of such payments?
 - d. Is there a written agreement between Aqua and DELCORA concerning the operation of the trust and payments from the trust to Aqua? If not, explain fully why not. If so, please identify and provide it.
 - e. Have the documents for creating the irrevocable trust been drafted? If "yes" please identify and provide them. If not, when are they expected to be drafted and available for review?
 - f. Have DELCORA and Aqua worked out all of the details of how the trust and payments from it will work? If not, identify remaining details that are still under discussion between DELCORA and Aqua.
 - g. Is the memorandum of understanding a draft?
 - h. Has the memorandum of understanding been finalized? If so, identify and provide a copy. If not, identify when it is expected to be finalized.
 - i. How will the amounts put into the trust and distributed from the trust be audited? Explain the audit procedures and how the auditor will be selected and by whom.

SUPPLEMENTAL RESPONSE

h. A copy of the executed MOU dated August 27, 2020 is attached here as OCA-I-36
SUPPLEMENTAL Attachment 1

Execution Version

INFORMATION SHARING

MEMORANDUM OF UNDERSTANDING

This Information Sharing Memorandum of Understanding, dated as the 27th day of August, 2020 (this “Memorandum”), is by and between the Delaware County Regional Water Quality Control Authority, a body corporate and politic existing under the Pennsylvania Municipal Authorities Act, 42 P.S. 5601, *et seq.* (“DELCORA”) and Aqua Pennsylvania Wastewater, Inc, a corporation organized and existing under the laws of the Commonwealth of Pennsylvania (“Aqua” and with DELCORA collectively, the “Parties”).

WITNESSETH:

WHEREAS, DELCORA currently owns and operates a sewer system (the “Sewer System”) that, in a specific service territory, serves residential, commercial, industrial, and municipal customers in Delaware County and Chester County, Pennsylvania;

WHEREAS, due to certain regulatory requirements and anticipated capital expenditures, DELCORA expects its rates for Wastewater Utility Services (defined below) to increase significantly in future years;

WHEREAS, pursuant to that certain agreement dated September 17, 2019, as amended, (the “Sewer System Sale Agreement”) between DELCORA and Aqua, DELCORA has agreed to sell the Sewer System to Aqua (the “Sewer System Sale”) in order to, among other things, mitigate the anticipated significant increases in DELCORA rates for Wastewater Utility Services to current customers at service locations served by DELCORA (the “DELCORA Service Locations”) and new Sewer System customers within the DELCORA Service Locations to be served by Aqua after the Closing Date (defined below) who are connected to the Sewer System (collectively, the “DELCORA Customers”); Aqua has agreed, subject to applicable regulatory approvals including that from the Pennsylvania Public Utility Commission (the “PUC”), in the Sewer System Sale Agreement to implement the DELCORA rates in effect at the Closing Date (defined below) of the Sewer System Sale as its Tariff Rates for the period beginning on the Closing Date through and including the date of any final and unappealed order of the PUC approving Aqua’s first base rate case applicable to the DELCORA customers (the “Rate Case Effective Date”);

WHEREAS, in anticipation of any Tariff Rate increases for Wastewater Utility Services, DELCORA has agreed to devote a majority of the proceeds that it receives from the Sewer System Sale (the “Net Sale Proceeds”) to mitigate those rate increases to DELCORA Customers for a specified period following the closing date of the Sewer System Sale Agreement (the “Closing Date”);

WHEREAS, the Net Sale Proceeds will be contributed by DELCORA to the Delaware County Water Quality Control Authority Rate Stabilization Trust (the “Trust”) established by DELCORA and Univest Bank and Trust Co. (the “Trustee”) by entering into the DELCORA Rate Stabilization Fund Trust Agreement dated December 27, 2019 (the “Trust Agreement”), and the

Net Sale Proceeds, along with investment earnings thereon and any other amounts contributed to the Trust, will be distributed in accordance with the Trust Agreement; and

WHEREAS, the Trustee in its fiduciary capacity will be in direct control over the funds that are contributed to the Trust pursuant to the Sewer System Sale Agreement; and

WHEREAS, pursuant to the Trust Agreement, the Trustee will make distributions from the Trust for the benefit of the DELCORA Customers to Aqua for the assistance payment amounts credited to DELCORA Customers' accounts in order to reduce the amounts DELCORA Customers pay for Wastewater Utility Services. To facilitate this action, DELCORA and Aqua have sought approval of the PUC to put a Customer Assistance Amount on Aqua's bills to DELCORA Customers. If the PUC approves the request to put the Customer Assistance Amount on DELCORA Customers' bills, the Parties are establishing the process to ensure the proper information is provided to the Trustee and the correct amount is distributed from the Trust to Aqua after it has provided the Customer Assistance Amounts to DELCORA Customers. The Parties include certain processes to provide accountability of the Trust distributions for the benefit of DELCORA Customers through the Customer Assistance Amount.

NOW, THEREFORE, in consideration of the foregoing premises and the mutual covenants expressed in this Memorandum, and intending to be legally bound, the Parties agree as follows:

ARTICLE I

Definitions

1.1 **Definitions.** Unless the context clearly requires otherwise, the following terms used in this Agreement shall have the following meanings:

- a. "Adjusted Customer Payment" means the amount a DELCORA Customer is required to pay to Aqua (with Trust distributions) based on the effective rate on the Closing Date, and that rate being increased by 3%, compounded annually, on the Rate Case Effective Date and on each anniversary of such date.
- b. "Billing Period" means the period for which a DELCORA Customer is billed by Aqua for Wastewater Utility Service in accordance with Aqua's PUC approved tariff.
- c. "Business Days" means Monday through Friday excluding public holidays.
- d. "Calculation Agent" means an accounting and/or financial advisory firm or its successor, or such other company as may be engaged by DELCORA to provide calculation services in connection with this Agreement.
- e. "Calculation Agent Service Agreement" means the service agreement to be entered into between the Calculation Agent and DELCORA, which, inter alia, sets forth the Calculation Agent's duties and responsibilities with respect to the Trust and this Agreement, as amended, and any service agreement entered into between the Calculation Agent's successor and

DELCORA, which sets forth the Calculation Agent's successor's duties and responsibilities with respect to the Trust and this Agreement, as amended.

f. "Customer Assistance Amount" means the amount which equals: (i) the amount a DELCORA Customer would otherwise be required to pay to Aqua (without Trust distributions) based on the Tariff Rate, minus (ii) the Adjusted Customer Payment.

g. "DELCORA Customer Assistance Trust Payment Period" means the period beginning on the Rate Case Effective Date and ending on the date on which the assets of the Trust are reduced to zero (0).

h. "Tariff Rate" or "Tariff Rates" means the rates set forth in Aqua's tariff as approved by the PUC, and as amended from time to time, applicable to the DELCORA Customers.

i. "Total Customer Assistance Amount" means the sum of the Customer Assistance Amount for all DELCORA Customers billed for a Billing Period.

j. "Wastewater Treatment Services" means only the services provided by Aqua necessary to collect, convey and treat the wastewater of DELCORA Customers in accordance with Aqua's PUC approved tariff.

1.2 **Articles and Section Headings.** The headings or titles of the several Articles and Sections of this Memorandum are solely for convenience of reference and do not affect the meaning or construction of the provisions of this Memorandum.

ARTICLE II

Purpose

2.1 **Purpose.** Aqua agreed in the Sewer System Sales Agreement, subject to PUC jurisdiction and oversight, to implement DELCORA's rates for Wastewater Utility Services in effect on the Closing Date as its Tariff Rates for the period beginning on the Closing Date through the Rate Case Effective Date. In the normal course of business, the Parties anticipate that the Tariff Rates DELCORA Customers will pay for Wastewater Utility Services will increase in the future on and after the Rate Case Effective Date. If the PUC authorizes a Customer Assistance Amount calculation to be included on an Aqua bill to DELCORA Customers, the purpose of this Memorandum is to set forth the process by which the Customer Assistance Amount is calculated and distributed so that the effect of the rate to be paid by DELCORA Customers for Wastewater Utility Services will increase by no more than three percent (3%), compounded annually, on the Rate Case Effective Date and each anniversary of such date during the DELCORA Customer Assistance Trust Payment Period.

ARTICLE III

Billing

3.1 **Billing.** Aqua shall issue a bill to each DELCORA Customer for Wastewater Utility Services for each Billing Period. If permitted by the PUC, Aqua shall include a Customer Assistance Amount on the bills it issues to each DELCORA Customer. The bill issued by Aqua to each DELCORA Customer will include the payment amount based on the Tariff Rate, the Customer Assistance Amount, and the Adjusted Customer Payment. Notwithstanding the foregoing, if the payment amount based on the Tariff Rate is less than the Adjusted Customer Payment, then the DELCORA Customer pays the lesser amount.

ARTICLE IV **Calculation of Customer Assistance Amount**

4.1 **Calculation of Customer Assistance Amount and Total Customer Assistance Amount.** For each Billing Period, Aqua shall provide the information to the Calculation Agent that enables it to calculate the Customer Assistance Amount for each DELCORA Customer and the Total Customer Assistance Amount.

4.2 **Payment of Total Customer Assistance Amount.**

a. Aqua shall provide the information to the Calculation Agent that enables the Calculation Agent to calculate the Total Customer Assistance Amount within twenty (20) Business Days after the last day of each Billing Period.

b. DELCORA shall cause the Calculation Agent to review the calculation of the Total Customer Assistance Amount and notify DELCORA in writing of the confirmation of such calculation, within ten (10) Business Days of the Calculation Agent's receipt of the information for a Billing Period. DELCORA shall direct the Trustee in writing to transfer to Aqua by Fedwire an amount equal to the Total Customer Assistance Amount (or, if applicable pursuant to 4.2(c)), the undisputed portion of the Total Customer Assistance Amount) for such Billing Period within ten (10) Business Days of the confirmation.

c. If the Calculation Agent is unable to confirm the calculation of the Total Customer Assistance Amount, the Calculation Agent shall notify DELCORA and Aqua within ten (10) Business Days and submit a written request to Aqua for additional information. Aqua shall provide the additional information within five (5) business days.

d. If the Calculation Agent is still unable to confirm the calculation of the remaining disputed portion of the Total Customer Assistance Amount for a Billing Period, DELCORA shall cause the Calculation Agent to provide all relevant information to an independent accountant to review and determine the proper calculation of such amount. The Parties shall mutually agree on the accountant selected. All decisions made by the chosen accountant are final and binding on the Parties unless the Parties otherwise agree.

4.3 **Cooperation of the Parties.** Aqua shall cooperate with the Calculation Agent to confirm the Total Customer Assistance Amount, and Aqua shall provide any additional information determined to be reasonably necessary by either the Calculation Agent or DELCORA to confirm the Total Customer Assistance Amount.

ARTICLE V

Understanding of the Parties

5.1 Understanding of the Parties.

a. After the Closing Date, changes to the residential DELCORA Customers will occur. For instance, existing customers will sell their residential home and purchasers of that home will become DELCORA Customers. Aqua may provide Customer Assistance Amount to new residential DELCORA Customers upon DELCORA's approval which shall not be unreasonably withheld; however, Aqua may not include additional commercial, industrial, or municipal entities after the Closing Date without DELCORA's express written consent to provide the Customer Assistance Amount to an additional commercial, industrial, or municipal entity.

ARTICLE VI

Miscellaneous Provisions

6.1 **Anti-Assignment; Successors and Assigns.** Neither Party to this Memorandum may assign any right or delegate any performance under this Agreement without the prior written consent of the other Party. A purported assignment or purported delegation without prior written consent is void. This Memorandum is binding upon, and inures to the benefit of, the Parties and their permitted respective successors and assigns.

6.2 **Entire Agreement.** This Memorandum represents all the agreements between the Parties pertaining to the subject matter hereof and they supersede all prior agreements, negotiations, discussions and understandings, written or oral, between the Parties relating to the subject matter of this Memorandum.

6.3 **Severability.** If any term, provision, covenant or restriction contained in this Memorandum is held by a court of competent jurisdiction to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions contained in this Memorandum remain in full force and effect and in no way be affected, impaired or invalidated.

6.4 **Amendment.** The Parties may amend this Memorandum only by a written agreement signed by both Parties and which identifies itself as an amendment to this Memorandum. Any waiver of, or consent to depart from, the requirements of any provision of this Memorandum will be effective only if such waiver or consent is in writing and signed by both Parties, and only in the specific instance and for the specific purpose for which it has been given.

6.5 **Governing Law.** This Memorandum is governed by, and construed in accordance with, the laws of the Commonwealth of Pennsylvania, including all matters of construction, validity, and performance, including torts.

6.6 **Notices.** All demands, notices, and communications upon or to DELCORA and Aqua under this Memorandum shall be in writing, personally delivered, sent by electronic facsimile (with hard copy to follow via first class mail), or mailed by certified mail return receipt

requested, and shall be deemed to have been duly given upon receipt, to the following address (or to such address as the notice party may direct):

To DELCORA:

DELCORA
100 East Fifth Street
Chester, PA 19013
Attention: Executive Director

with copies to:

Obermayer Rebmann Maxwell & Hoppel LLP
1500 Market Street, Suite 3400
Philadelphia, PA 19102-2101
Attention: Thomas Wyatt

To Aqua:

Aqua Pennsylvania Wastewater, Inc.
762 W. Lancaster Ave.
Bryn Mawr, PA 19010
Attention: President

With copies to

Aqua Pennsylvania Wastewater, Inc.
762 W. Lancaster Ave,
Bryn Mawr, PA 19010
Attention: General Counsel

6.7 **Counterparts.** This Memorandum may be executed by the Parties in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute one and the same instrument.

[Signature page follows]

IN WITNESS WHEREOF, the Parties have duly executed this Memorandum the day and year first set forth above.

DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY

By: _____

Name: _____

Title: _____

AQUA PENNSYLVANIA WASTEWATER, INC.

By:  _____
DocuSigned by: 4EA22E4AF39946E...

Name: Marc A. Lucca

Title: President

IN WITNESS WHEREOF, the Parties have duly executed this Memorandum the day and year first set forth above.

DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY

By: *Robert J. Willert*

Name: *Robert J. Willert*

Title: *Executive Director*

AQUA PENNSYLVANIA WASTEWATER, INC.

By: _____

Name: _____

Title: _____



WCP-2R Schedule F KCC-I-1 Attachment 1
DELAWARE COUNTY REGIONAL WATER QUALITY CONTROL AUTHORITY
100 East Fifth Street • P.O. Box 999 • Chester, PA 19016-0999

November 19, 2003

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Paul R. Wittekind
Plant Manager
Kimberly Clark
Front & Avenue of the States
Chester, PA 19013

**RE: Agreement between Delaware County Regional
Water Quality Control Authority (DELCORA) and
Kimberly Clark (formerly Scott Paper)**

Dear Mr. Wittekind:

As you may know, there is an agreement between the Delaware County Regional Water Quality Control Authority (DELCORA) and Kimberly Clark (formerly Scott Paper) for the conveyance and treatment of industrial wastewaters in the western regional system, dated December 1, 1973. Enclosed is a copy of the agreement for your reference. This agreement provides for a term of thirty-one years, and therefore expires on December 1, 2004. The agreement further provides, in Section 10, that either party may terminate the agreement at the end of said term by giving the other party written notice thereof at least one year prior thereto.

Therefore, pursuant to the contract, please accept this letter as notice of the termination of the agreement effective December 1, 2004, and the desire of the Authority to discuss ways that we can improve the relationship to benefit both parties.

The current agreement has served both parties effectively for over three decades. DELCORA recognizes and values the long-standing relationship Kimberly Clark shares with the Authority, and it is our wish that we continue that positive relationship. The Authority believes the best way to achieve this would be to explore changes in our relationship that will reflect the new realities that have taken place over time.

I recommend that we meet soon to begin discussions and plan for the next thirty years. Please contact me at 610-876-5523, extension 112, so we can arrange some times to get together.

Sincerely,

Joseph L. Salvucci
Executive Director

JLS:bab
enclosure

cc: P. McNichol, Esq., Blank Rome LLP
 R. Powel, DELCORA
 J. Pileggi, DELCORA
 File

ADMINISTRATION

☐ 610-876-5523 •
☐ FAX: 610-876-2728

CUSTOMER BILLING

☐ 610-876-5526 •

PURCHASING

☐ 610-497-6760 Ext. 34 & 35 •
☐ FAX: 610-497-7959

PLANT & MAINTENANCE

☐ 610-497-6760
☐ FAX: 610-497-7950

U.S. Postal Service
CERTIFIED MAIL RECEIPT
(Domestic Mail Only; No Insurance Coverage Provided)

OFFICIAL USE

Postage \$
Certified Fee
Return Receipt Fee (Endorsement Required)
Restricted Delivery Fee (Endorsement Required)
Total Post

Sent To Paul R. Wittekind
Plant Manager
Kimberly Clark
Front & Avenue of the States
Chester, PA 19013

PS Form 3800, January 2001 See Reverse for Instructions

7001 2510 0002 0646 9568

11/21/03

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

Paul R. Wittekind
Plant Manager
Kimberly Clark
Front & Avenue of the States
Chester, PA 19013

2. Article (Transit)

7001 2510 0002 0646 9568

COMPLETE THIS SECTION ON DELIVERY

A. Signature ☒ Agent ☐ Addressee

B. Received by (Printed Name) C. Date of Delivery

X/ES J. J. J. 11-21-03

D. Is delivery address different from item 1? ☐ Yes
If YES, enter delivery address below: ☒ No

3. Service Type

☒ Certified Mail ☐ Express Mail
☐ Registered ☐ Return Receipt for Merchandise
☐ Insured Mail ☐ C.O.D.

4. Delivery? (Extra Fee) ☐ Yes

PS Form 3811, August 2001 Domestic Return Receipt 102595-02-M-1540

Respondent: John Pileggi
Date: September 22, 2020

APPLICATION OF AQUA PENNSYLVANIA WASTEWATER, INC.

DOCKET NO. A-2019-3015173

KIMBERLY-CLARK CORPORATION

SET I INTERROGATORIES DIRECTED TO DELCORA

KCC-I-1 Is the 1973 Agreement still in effect?

RESPONSE:

No. DELCORA gave KCC one year's notice in 2003 to terminate the 1973 Agreement. See KCC-I-1 Attachment 1. Thereafter, the parties agreed that the pretreatment program's Rules and Regulations would determine the terms of the relationship, rather than entering into a new agreement.